



## NOTICE OF PUBLIC MEETING

This notice is given to meet the requirements of the S.C. Freedom of Information Act and the Americans with Disabilities Act. Furthermore, this facility is accessible to individuals with disabilities, and special accommodations will be provided if requested in advance.

### RETIREMENT SYSTEM INVESTMENT COMMISSION STRATEGIC PLANNING RETREAT

Date: June 16-17, 2014

Location: Wampee Training and Conference Center  
1274 Chicora Drive  
Pinopolis, South Carolina 29461  
Meeting Location: Conference Room

### AGENDA

#### Meeting Convenes Monday, June 16, 2014 at 10:30 a.m.

- I. Call to Order
  - a. Adoption of Proposed Agenda
- II. Investment Beliefs – 10:30 a.m.
- Lunch – 12:00-1:00 p.m.*
- III. SC Private Equity – 1:00 p.m.
- IV. Asset Class Plans – 2:00 p.m.
- V. Executive Session to discuss investment matters and receive legal advice pursuant to S.C. Code Ann. Sections 9-16-80 and 9-16-320 – 4:00 p.m.

#### Meeting to Reconvene Tuesday, June 17, 2014 at 8:30 a.m.

- I. Call to Order
- II. Chairman's Report – 8:30 a.m.
  - a. Commission Evaluation

- III. Strategic Plan – 8:45 a.m.
- IV. Audit Committee Report – 10:30 a.m.
- V. Enterprise Risk Management Update – 10:40 a.m.
- VI. Compensation Committee Report – 11:05 a.m.
- VII. CIO's Report – 11:10 a.m.
  - a. Performance Update
  - b. Risk Report
  - c. Integrity Consent
- VIII. HEK Service Provider Review – 12:00 p.m.
- IX. Adjournment

# Developing our Strategic Plan

Transforming RSIC for the Future



# Most Recent Strategic Goals (2012)

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1. *Execute Major Investment Portfolio Initiatives*
2. *Develop and Implement Specific Governance Policies (Complete)*
3. *Improve and Standardize Due Diligence Processes*
4. *Improve Reporting Processes*
5. *Develop Efficient and Effective Workforce*
6. *Create Efficient and Effective Facilities (Complete)*
7. *Perform Feasibility Study and Prepare Recommendations for Long-term Organizational Structure (complete)*



# Most Recent Strategic Goals (2012)

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*8. Improve Legal Processes*

*9. Improve Internal Controls*

*10. Strengthen Information Technology  
Resources*

*11. Enhance External Communications*



# Funston Audit

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## Pervasive Themes:

1. Improve assurance and independent reassurance to build trust and confidence.
2. Build capabilities across the organization (including HR, IT, accounting, etc.).
3. Reset Commissioners' focus on strategy and oversight.
4. Align fiduciary duties and responsibilities.
5. Improve the custodian relationships.



# Suggested Goals & Tasks (4 June 2014)

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## RSIC Staff Input:

- Build technology infrastructure
- Develop and implement a robust communications strategy both internally and externally
- Create the best team possible; enhance employee development; clearly define roles and responsibilities
- Improve current processes; reduce manual work



# Suggested Goals & Tasks (4 June 2014)

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- Define investment beliefs and implementation strategies
- Consider alternative investment implementations/structures given budget constraints
- Shift commission focus from due diligence to oversight



# Commissioner Initiatives (March 2014)

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In order of priority based on consolidated feedback:

1. Implementation of an investment risk system (such as BARRA, Northfield, Wilshire, etc.)
2. Expand infrastructure for improving, monitoring, and gathering position-level data of external managers
3. Add the ability to aggregate data and holdings-level positions across entire or the majority of the Plan
4. Enhance middle and back-office systems (operational, accounting, and trading) supporting internally-managed portfolios, including appropriate policies
5. Enhance compliance functions
6. Enhance stakeholder relationships
7. Re-evaluate compensation plan for RSIC



# Commissioner Initiatives (March 2014)

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8. Redesign strategic partnership model and amend agreements as warranted
9. Evaluate the use of specialty consultants (for investment advice regarding private equity, real estate, and/or hedge funds)
10. Develop an enterprise-wide risk charter
11. Enhance internal management capabilities for cash, short duration, and fixed income
12. Increase direct and co-investment exposure
13. Expand use of fund of one or separate accounts, and convert from commingled structures to fund of one or separate accounts where feasible
14. Expand internal management to include enhanced or active equity and credit initiatives



# Suggested Strategic Goals (for discussion)

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- Execute Major Investment Portfolio Initiatives designed to meet the actuarial rate of return and exceed the policy benchmark while maintaining a prudent level of risk
  - Examples of potential action items:
    - Define investment beliefs and implementation strategies
    - Consider implementation structures given budget constraints

# Suggested Strategic Goals (for discussion)

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- Build trust and confidence in the organization at the Commission level and with broader stakeholder groups by improving assurance and reassurance and clearly communicating investment beliefs, strategies, and performance
  - Examples of potential action items
    - Fully develop communications plan
    - Fully develop compliance and ERM functions
    - Ensure Committee materials are shared with full Commission consistently and timely
    - Develop and implement reporting to Commissioners and to the stakeholders
      - Receive input on reporting desires from each Commissioner

# Suggested Strategic Goals (for discussion)

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- Enhance the Commissioners' focus on strategy and oversight
  - Examples of potential action items:
    - Develop a Commission meeting calendar with rotating schedule to regularly review strategic items such as asset allocation, investment beliefs, strategic planning, etc.
    - Enhance educational opportunities for Commissioners
    - Eliminate Commissioners' role in due diligence

# Suggested Strategic Goals (for discussion)

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- Advocate and educate the General Assembly regarding the alignment of fiduciary duties and responsibilities
- Improve custodian relationships



# Suggested Strategic Goals (for discussion)

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- Develop, implement, and maintain robust technology systems and processes to provide timely, relevant, and accurate data upon which to make prudent investment decisions and to appropriately monitor investment actions
  - Examples of potential action items:
    - Implement Risk Management System
    - Implement Administrator System
    - Complete process improvements to reduce manual work

# Suggested Strategic Goals (for discussion)

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- Develop, implement, and maintain human resource practices that support the investment strategy and objectives of RSIC and encourage, empower, and direct staff to achieve Commission goals
  - Examples of potential action items:
    - Clearly define roles, delegations of authority, and decision making ability of each staff member
    - Ensure effective resource allocation
    - Encourage innovation
    - Reward natural leaders
    - Ensure knowledge is shared across functional areas
    - Ensure Commission's strategic goals are translated into actionable items for individual staff members







# South Carolina Retirement System

Strategic Planning Survey Results

March 2014

## Process

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- Staff identified 14 initiatives based on:
  - Existing priorities
  - Feedback/questions raised by the Commissioners over the past year
- Commissioners were asked to prioritize/rank all of the initiatives
- There was a fair amount of commonality among the Commissioners in the high priority initiatives
- The Funston review's recommendations need to be coordinated with this list to develop the ultimate list of strategic priorities

## HEK View on Best Practice: Developing a Strategic Plan

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- Initiatives listed in a strategic plan should be reviewed annually by the Commission, and usually more often by the Staff
- Some initiatives will take years to complete
- Not all initiatives represent the same degree of difficulty, time commitment, or expense.
- Initiatives should stay in the strategic plan as long as they are still relevant and unfinished.
- Initiatives come off the plan for one of three reasons:
  - they represent a project that has been completed,
  - they represent a process improvement that has been incorporated into the ongoing business practices,
  - they are deemed no longer relevant.
- Sometimes initiatives are reworded or slightly modified during annual updates of the plan

## HEK's View on Best Practice: Prioritizing Initiatives

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- If initiatives are numerous, then priorities need to be set
- What is critical to fulfilling the Public Fund's mission?
- What is not critical to fulfilling the Public Fund's mission?
- What needs immediate attention?
- What can wait?

<b>Critical Easy to Accomplish</b>	<b>Critical Difficult to Accomplish</b>
<b>Not Critical Easy to Accomplish</b>	<b>Not Critical Difficult to Accomplish</b>

## RSIC Initiative Rankings

Initiative	Overall Ranking	# of times in Top 3 or "High Priority"
Implementation of an investment risk system (such as BARRA, Northfield, Wilshire, etc.)	1	6
Expand infrastructure for improving monitoring and gathering position-level data of external managers	2	4
Add the ability to aggregate data and holdings-level positions across entire or the majority of the Plan	3	4
Enhance middle and back office systems (operational, accounting and trading) supporting internally managed portfolios, including appropriate policies	4	2
Enhance Compliance Functions	5	4
Enhance Stakeholder Relationships	5	2
Re-evaluate compensation plan for RSIC	7	2
Redesign strategic partnership model and amend agreements as warranted	8	2
Evaluate the use of specialty consultants (for investment advice regarding private equity, real estate and/or hedge funds)	9	1
Develop an Enterprise wide Risk Charter	10	3
Enhanced internal management capabilities for cash, short duration and fixed income	11	0
Increase direct and co-investment exposure	12	2
Expand use of fund of one or separate accounts, and convert from commingled structures to fund of one or separate accounts where feasible	13	0
Expand internal management to include enhanced or active equity and credit strategies	14	0
<b>Other Commissioner Ideas</b>		
Expand Strategic Partnerships and opportunistic investments arising from them		
Provide more risk reporting on Commissioner portal		



**STATE OF WISCONSIN INVESTMENT BOARD**

**STRATEGIC PLAN**

**2014 -2016**

# Note from the Executive Director

The State of Wisconsin Investment Board (SWIB) has a sacred trust to fulfill our fiduciary duties to the trusts we manage, and we strive to contribute to strong financial futures for the beneficiaries of those trusts, including the 570,000 participants in the Wisconsin Retirement System (WRS). The success of our efforts is evident in the strong performance of the trusts we manage. The WRS continues to be among the best public pension systems in the country, in large part due to the investment returns, which, on average, represent nearly 80% of the WRS's annual income.

To maintain our success in the future, we are working hard to stay at the forefront of institutional investment practices that are continually evolving. In addition, we understand that, to be successful, we need to do more than simply keep pace with the market. From time to time, it is critical for us to step back, assess our strengths as well as our opportunities to improve, and then chart a course for the future. The strategic plan that follows is the result of such an exercise involving our Trustees, representatives of our member organizations and our staff.

As part of SWIB's three-year strategic plan, we are implementing a number of new investment initiatives that will better position us to continue to provide solid returns while limiting risk in a volatile marketplace. We are upgrading our portfolio management technology systems and operational processes to improve our access to and management of financial data. This is a critical component to SWIB's competitive edge and ability to make informed investment decisions as we manage increasing amounts of assets internally. We are also examining our people, our culture and how we are organized to ensure optimal alignment of resources with our strategic direction. Combined, these initiatives will allow us to be more innovative, proactive and adaptable in the rapidly changing economic and financial marketplace while focusing on solutions and results.

The work we are doing today, and that we have planned for the future, will help us to remain a model investment management organization that benefits the entire State of Wisconsin by fulfilling our duties to the trusts we manage.



Michael Williamson

# MISSION

To be a trusted and skilled global investment organization contributing to a strong financial future for the beneficiaries of the funds entrusted to us.

# VISION

SWIB will be an innovative, agile, integrated organization that optimizes investment returns while managing risk and cost over the long term.

# FUTURE DIRECTION

Throughout our history, we have been committed to contributing to a strong financial future for the beneficiaries of the funds entrusted to us. We understand that carrying that commitment into the future demands more than maintaining the status quo.

As a global investment organization, our mission requires that we keep pace with ever-changing financial markets while remaining true to our values and operating principles. Accordingly, our strategic plan is designed to ensure that we, as an organization, are well positioned to effectively manage risk and achieve the target returns for our funds over the long-term.

Our strategic plan outlines priorities in five areas: investment strategy; operations and technology; people and culture; authority, decision-making, and accountability; and innovation management. These priorities are oriented around a single focus: meeting the investment objectives of the funds we manage.

Although this strategic plan does not represent a significant change in our trajectory as an organization, it establishes the framework for meeting the challenges presented by the evolving investment landscape. In doing so, our strategic plan is designed to sustain us as an innovative, agile, integrated organization that optimizes investment returns while managing risk and cost over the long-term.



# VALUES/OPERATING PRINCIPLES

Values	Operating Principles
Integrity	We follow the highest ethical standards in meeting our fiduciary duty.
Commitment	We care about what we do and those we serve. We have a passion for success.
Respect	We value others, encourage open communication and exploration of different points of view, and recognize contributions.
Accountability	We own our actions and outcomes. We focus on solutions and results.
Prudence	We measure and manage risk to appropriate levels while focusing on long-term value.
People	We attract, develop and retain talented professionals. We promote life-long learning and wellbeing.
Innovation	We seek and embrace new ideas and continuous improvement.
Collaboration	We manage and operate as a single, unified organization.

# STRATEGIC PRIORITIES/GOALS

## PRIORITY 1 – INVESTMENT STRATEGY

Manage factors and risk at the trust fund level:

- Maintain the actuarial targeted return for the Core Trust Fund policy portfolio while seeking to decrease the variability of return.
- Seek to increase the skill based return at a target of 60 bps of value added for the Core Trust Fund by taking more un-correlated active risk.
- Modify the Core Trust Fund policy portfolio to achieve better risk diversification.

## PRIORITY 2 – OPERATIONS AND TECHNOLOGY

Develop, implement and maintain robust service and operating models, supported by state-of-the-art technology, contracted services and streamlined processes, which provide staff easy access to high quality and timely data.

## PRIORITY 3 – PEOPLE AND CULTURE

Develop, implement and maintain a staffing roadmap that effectively translates SWIB's future direction into actual, tangible improvements to organizational structure, job roles and responsibilities, education and development, morale, culture, and incentives.

## PRIORITY 4 – AUTHORITY, DECISION-MAKING AND ACCOUNTABILITY

Operate with a robust decision-making process that includes well defined decision-making roles, responsibilities and accountability and that supports cross-functional, collaborative management and a unified organization.

## PRIORITY 5 – INNOVATION MANAGEMENT

Foster innovative thinking across the whole organization, vetting new ideas in a cross-functional forum to determine feasibility, prioritization and planning in order to advance select ideas into practice.

# Enterprise Risk Management (ERM) Discussion

June 16-17, 2014  
Commission Meeting



# What is ERM and what does it do?

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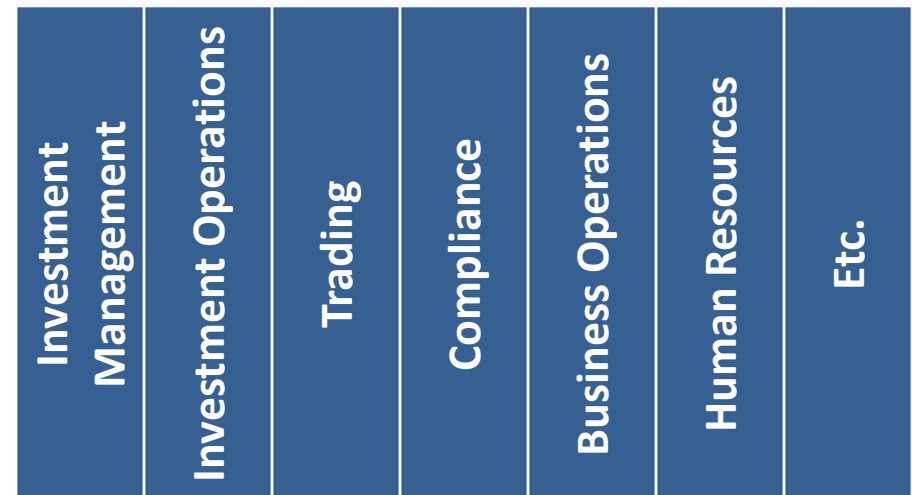
- ERM provides an integrated and consistent framework to identify, assess, monitor, and ultimately manage risks in support of the plans mission to provide superior investment management services.
  - The goal is to ensure that all risks are identified and managed effectively in the achievement of RSIC's goals
- Ultimately a successful ERM program should provide answers to questions like these:
  - Should we do it?
    - Aligned with culture, business strategy, values, and ethics
  - Can we do it?
    - Processes, people, structure, and technology systems/capabilities
  - Did we do it?
    - Assessment of expected results, ongoing learning, and checks and balances



# Risk Identification Process Evolvment With ERM

## “Old Method”

- Identify specific risks within each business unit
- Challenges
  - Silo effect
  - Ensuring risks are communicated upward on regular basis
- Ownership
  - Individual-focused
  - Potentially inconsistent documentation



## Transition to Future State of Enterprise Risk Management

- Process focused
  - Cross functional
- Formalized & standardized approach
  - Results communicated periodically to Commission and Management
- Roles & responsibilities
  - Position-focused
  - Tiered
    - Manager
    - Global Owner



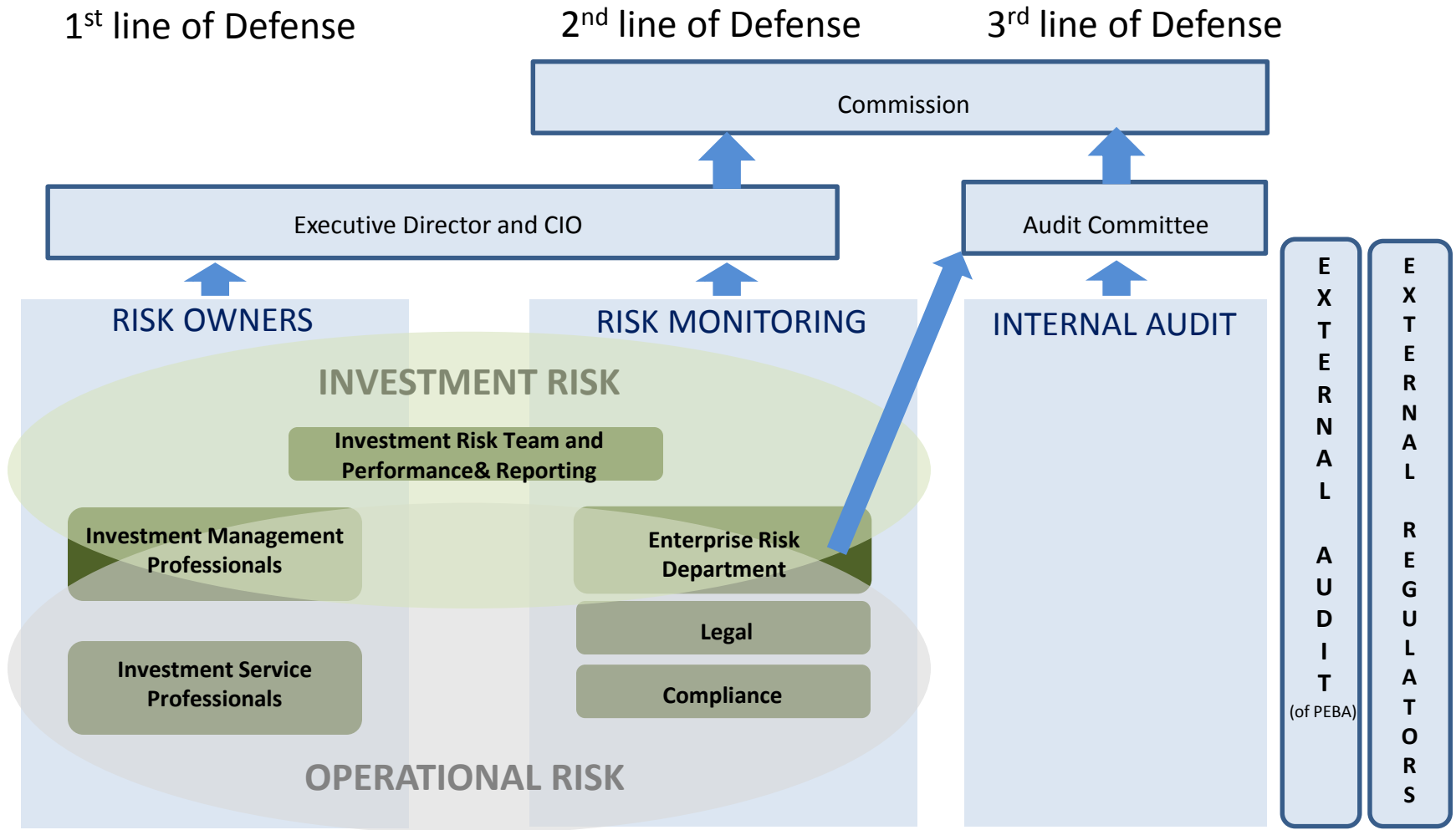
# ERM Department's Role

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- ERM Department is NOT responsible for risk management, but instead is responsible for developing an enterprise wide capability and providing independent reassurance that management's reports can be relied upon.
  - Risk Management is the responsibility of each employee at RSIC
  - Investment risk is still the responsibility of the CIO and investment team
  - RSIC and Commission culture must be at the center of our ERM framework



# Three Lines of Defense Model



# Enterprise Risk Management Maturity Matrix



Initial	Fragmented	Top Down	Integrated	Risk Intelligent
<ul style="list-style-type: none"> <li>Ad hoc/chaotic</li> <li>Depends primarily on individual heroics, capabilities, and verbal wisdom</li> </ul>	<ul style="list-style-type: none"> <li>Independent risk management activities</li> <li>Limited focus on the linkage between risks</li> <li>Limited alignment of risk to strategies</li> <li>Disparate monitoring &amp; reporting functions</li> </ul>	<ul style="list-style-type: none"> <li>Common framework and policies</li> <li>Routine risk assessments</li> <li>Communication of top strategic risks to the Board</li> <li>Executive/Steering Committee</li> <li>Knowledge sharing across risk functions</li> <li>Awareness activities</li> <li>Formal risk consulting</li> <li>Dedicated team</li> </ul>	<ul style="list-style-type: none"> <li>Coordinated risk management activities</li> <li>Risk appetite is fully defined</li> <li>Enterprise-wide risk monitoring, measuring, and reporting</li> <li>Technology implementation</li> <li>Contingency plans and escalation procedures</li> <li>Risk management training</li> </ul>	<ul style="list-style-type: none"> <li>Risk discussion is embedded in strategic planning, capital allocation, etc.</li> <li>Early warning risk indicators used</li> <li>Linkage to performance measures and incentives</li> <li>Risk modeling/scenarios</li> <li>Industry benchmarking used regularly</li> </ul>



















# What type of Reporting does the Commission want from ERM?

## Example Residual Risk Summary:

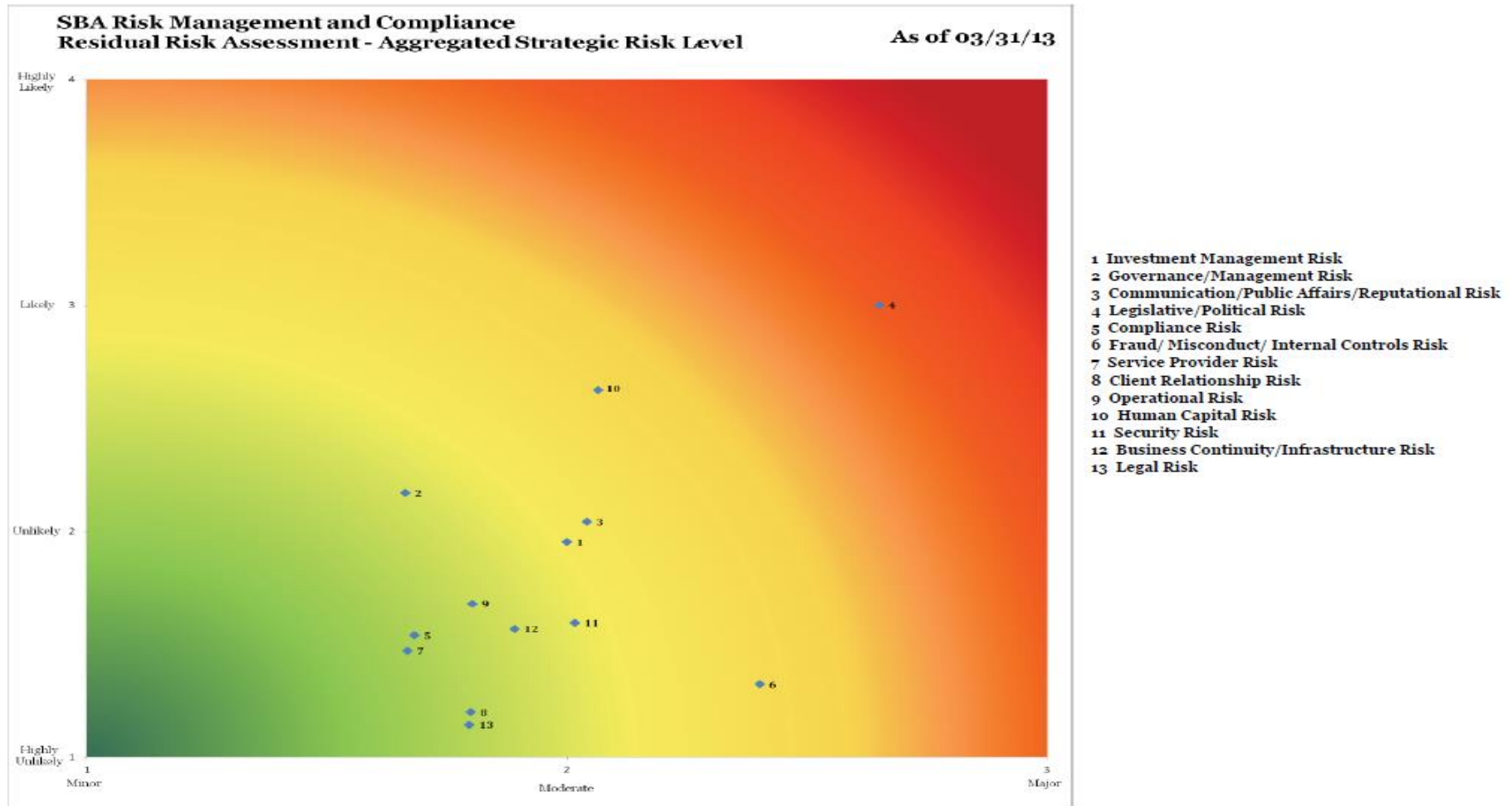
Residual Risk Level				
● Low	◆ Moderate	● High	▲ Low Moderate	★ High Moderate
<b>1. Investment Management Risk</b>	<b>2. Governance/Management Risk</b>	<b>7. Service Provider Risk</b>	<b>9. Operational Risk (cont.)</b>	<b>12. Business Continuity / Infrastructure Risk</b>
<b>1.A. Policy Risk</b> ◆ 1.A.i. Investment Policy Design Risk ◆ 1.A.ii. Investment Objective Risk ★ 1.A.iii. Capital Market Assumption Risk ◆ 1.A.iv. Liability Risk	▲ 2.A. Resource Allocation Risk ◆ 2.B. Governance Policy Design Risk ◆ 2.C. Fiduciary/Ethics Risk ▲ 2.D. Management Execution Risk	◆ 7.A. Financial Condition ▲ 7.B. Service Level Quality ▲ 7.C. Key Personnel ▲ 7.D. Premature/Unexpected Service Termination	◆ 9.E. Accounting and Financial Reporting ▲ 9.F. Valuation ▲ 9.G. Performance Measurement ◆ 9.H. Internal System Reliability/ Electronic Data Integrity Risk ◆ 9.I. FHCF/DC Program-Specific Risks ▲ 9.J. Proxy Voting ▲ 9.K. External Corporate Governance	◆ 12.A. Facilities ▲ 12.B. Communication Systems ◆ 12.C. Data/System Recovery ◆ 12.D. Process Recovery
<b>1.B. Implementation Risk</b>	<b>3. Communication/Public Affairs/ Reputational Risk</b>	<b>8. Client Relationship Risk</b>		<b>13. Legal Risk</b>
★ 1.B.i. Strategic Risk ◆ 1.B.ii. Portfolio Under Performance Risk ▲ 1.B.iii. Trading Risk ▲ 1.B.iv. Asset Transition Risk ▲ 1.B.v. Model Risk ▲ 1.B.vi. Due Diligence Risk		▲ 8.A. Service Delivery ▲ 8.B. Education ◆ 8.C. Communication/Reporting ▲ 8.D. Allocation of Investment Opportunities		▲ 13.A. Contract Development
<b>1.B. Implementation Risk (cont.)</b>	<b>4. Legislative/Political Risk</b>		<b>10. Human Capital Risk</b>	<b>13.B. Legal Advisory</b>
◆ 1.B.vii. Leverage Risk ◆ 1.B.viii. Aggregate Issuer/Counterparty Credit Risk			◆ 10.A. Recruitment and Retention ◆ 10.B. Training and Development ★ 10.C. Key Person/Succession	
<b>1.C. Inherent Risk</b>	<b>5. Compliance Risk</b>	<b>9. Operational Risk</b>		<b>13.C. Litigation</b>
◆ 1.C.i. Market/Systematic Risk - Credit Risk ▲ 1.C.i.a. Credit Risk ▲ 1.C.i.b. Interest Rate Risk ◆ 1.C.i.c. Inflation Risk ◆ 1.C.i.d. Liquidity Risk ▲ 1.C.i.e. Currency Risk ★ 1.C.i.f. Systemic Risk	▲ 5.A. Laws, Rules & Regulations ▲ 5.B. SBA Policies ▲ 5.C. Investment Policy Guidelines ▲ 5.D. Contractual Agreements	▲ 9.A. Cash Management ▲ 9.B. Trade Settlement ◆ 9.C. Transaction Processing ▲ 9.C.i. Incoming/Outgoing Wire Processing ▲ 9.C.ii. Check Processing/Disbursement ◆ 9.C.iii. Client Deposit/Redemption Processing ▲ 9.C.iv. Corporate Actions and Income Collections Processing ◆ 9.D. Asset Reconciliation	<b>11. Security Risk</b> ◆ 11.A. Physical Security ◆ 11.A.i. Employee Security ◆ 11.A.ii. Facility Security ◆ 11.B. Network/System Security ▲ 11.C. Information Security & Records Management	
▲ 1.C.ii. Idiosyncratic /Unsystematic Risk	<b>6. Fraud/Misconduct/Internal Controls Risk</b>			
	◆ 6.A. Internal Staff ▲ 6.B. Service Providers ◆ 6.C. External Parties			

# Example Residual Risk Summary:

California Public Employees' Retirement System			
Residual Risk Report			
Strategic	Operational	Financial	Compliance / Ethics
FY2013-14 Projected Risk May   Oct   Trend   Domain	FY2013-14 Projected Risk May   Oct   Trend   Domain	FY2013-14 Projected Risk May   Oct   Trend   Domain	FY2013-14 Projected Risk May   Oct   Trend   Domain
 <b>Governance / Leadership</b> 1  This domain identifies risks of ineffective delegations, governance committees, policies and procedures, and leadership that may impact timely decisions that guide CalPERS to meet its strategic goals and objectives. This includes tone at the top.	 <b>Business Planning</b> 10  This domain identifies risks that may impact creating and achieving relevant business plan objectives and action plans that are aligned with strategic risks. This includes effective implementation and monitoring of objectives and alignment of business planning process with other business decision processes.	 <b>Financial Controls and Systems (Top Risk)</b> 21  This domain identifies risks that may impact the effectiveness of CalPERS financial controls to ensure accurate accounting for plan assets and liabilities. This includes policies and processes, implementation and management of controls for decision making, and use of assets, including appropriate authorizations, and segregation of duties.	 <b>Laws, Rules, and Regulations (Top Risk)</b> 27  This domain identifies risks that may impact CalPERS and staff resulting from non-compliance with statutory requirements, specifically non-compliance with relevant laws, rules and regulations, including regulatory reporting and the effectiveness of a compliance management framework as outlined in the United States Federal Sentencing Guidelines (FSG).
 <b>Strategic Planning and Implementation</b> 2  This domain identifies risk of achieving strategic goals and effectively planning and implementing objectives and initiatives to meet CalPERS vision, mission, goals and objectives. Includes the ability to effectively measure, report, and monitor achievement of strategic goals, objectives, and initiatives outlined in the strategic plan.	 <b>Organization</b> 11  This domain identifies risks that may impact CalPERS alignment to be an effective organizational structure with clear roles and responsibilities to achieve objectives and serve our employers and members.	 <b>Financial Planning</b> 22  This domain identifies risks that may impact the effectiveness of CalPERS budget and planning process which provides appropriate financial resources for the organization to meet its objectives.	 <b>Fraud Detection and Prevention</b> 28  This domain identifies risks that may impact the protection of CalPERS assets, integrity, and credibility through effective fraud detection and prevention and investigation capabilities.
 <b>Health Care Costs (Top Risk)</b> 3  This domain identifies risks in the health care environment that may impact increases in health care benefit costs and may erode CalPERS ability to provide its members with high quality, cost effective health care services and adversely impact CalPERS as the preferred health care choice for employers and employees.	 <b>Procurement and Contract Management</b> 12  This domain identifies risks that may impact CalPERS process to cost effectively and efficiently acquire goods or services and manage contracts consistent with applicable laws, regulations, and policies.	 <b>Financial Reporting</b> 23  This domain identifies risks that may impact the integrity of financial and management reporting which meets management's needs for decision making and legal and statutory requirements for disclosure.	 <b>Policy and Procedures (Top Risk)</b> 29  This domain identifies risks that may impact compliance with all CalPERS policies and the effectiveness of a policy management framework.
 <b>Long Term Care Program</b> 4  This domain identifies risks that may impact CalPERS Long Term Care program and that it is sufficiently funded to provide services expected. This includes performance of third-party administrator and overall fund status.	 <b>Business Continuity Management (Top Risk)</b> 13  This domain identifies risks that may impact CalPERS ability to effectively plan for recovery and business continuity in the event of a disaster, hazard situation, or other business interruption.	 <b>Investment Risk Management (Top Risk)</b> 24  This domain identifies risks that may impact the management, measurement, monitoring and reporting of investment risk. This includes adequacy of resources, tools and governance structure to measure and manage risk.	 <b>Ethical Conduct</b> 30  This domain identifies risks that may impact adherence to CalPERS standards of conduct, personal trading policy, and conflict of interest policies.  <i>Note: Final reporting period. This risk domain will be replaced with a new Ethical Conduct &amp; Standards domain (31).</i>



# Example Risk Assessment Heat Map



# Next Steps for ERM

- Perform risk identification (e.g. Develop risk inventory items )
- Conduct Entity-Wide Risk Assessment:
  - Plan to have risk discussions with management and Commissioners covering such areas as:
    - \* • What are major risks to our system?
    - Who do you see as responsible for managing those risks?
    - How prepared are we to prevent or respond to major risks?
    - What can we do to practically reduce any unacceptable exposures given our limited resources?
    - How does the Commission know management's answers are reliable?
- Continue to develop ERM reporting and monitoring for management and Commission
- Always stay nimble to allow ERM to continue to develop to meet needs of organization and Commissioners



Harry B. Limehouse, III  
First Vice Chairman

Brian White  
Chairman

Michael A. Pitts  
Second Vice Chairman

J. Roland Smith  
Third Vice-Chairman

## Ways and Means Committee



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Liston D. Barfield  
Kenneth A. Bingham  
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William R. "Bill" Whitmire

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Chief of Staff

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Paul D. Patrick  
Director of State  
Budgeting & Finance

Kimberly G. Jackson  
Executive Secretary

June 5, 2014

Hershel Harper, CIO and Greg Ryberg, COO  
South Carolina Retirement Investment Commission  
1201 Main Street, Suite 1510  
Columbia, SC 29201

Dear Mr. Harper and Mr. Ryberg:


Pursuant to Proviso 89.124 of the 2012-2013 Appropriations Act, the Ways and Means Committee Retirement Subcommittee is required to approve the Performance Incentive Compensation Plan (PIC) for the Retirement System Investment Commission (RSIC) for calendar year 2014.

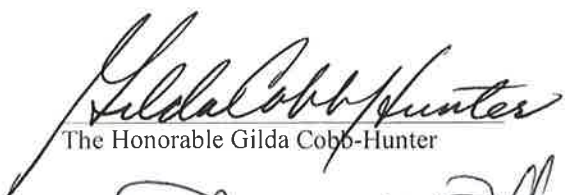
**89.124.** (GP: Retirement Investment Commission) *Of the funds appropriated and or authorized, the Retirement Investment Commission shall submit a report to the Senate Finance Retirement Subcommittee and the Ways and Means Retirement Subcommittee by January 15, 2013 that sets forth a plan regarding salary bonuses for calendar year 2014. The plan must be approved by both subcommittees before implementation.*

Due to the impending end of the legislative session and the realization of the need for the RSIC to move forward, please allow this letter to serve as approval of the PIC Plan for calendar year 2014.

However, as a result of the testimony received by the subcommittee and concerns voiced by the members of the subcommittee, approval of all future PIC Plans will be based on the RSIC's ability to provide a clearly articulated listing of employees affected, how much incentive bonus is to be received, and clearly delineated associated performance goals and outcomes, not only on a quantitative basis which will be aligned to approved bench marks by asset class, but also on a qualitative basis tied to each individual's sustained performance, position specific accountabilities, and any competitive pay requirements.

Regards,

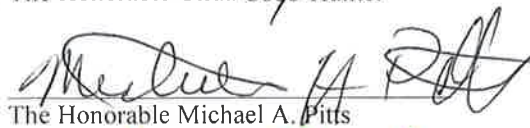
  
The Honorable James H. Merrill  
Chairman



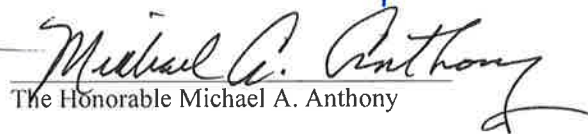
The Honorable Gilda Cobb-Hunter



The Honorable Kenneth A. Bingham



The Honorable Michael A. Pitts



The Honorable Michael A. Anthony



The Honorable B.R. Skelton

cc: Members of the South Carolina Budget and Control Board  
Commissioners of the Retirement System Investment Commission  
Danny Varat  
Sarah Corbett



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COMMISSIONER



**RETIREMENT SYSTEM INVESTMENT COMMISSION**  
1201 MAIN STREET, SUITE 1510, COLUMBIA, SC 29201

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CHAIRMAN

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COMMISSIONER

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COMMISSIONER

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CHIEF INVESTMENT OFFICER

W. GREG RYBERG  
CHIEF OPERATING OFFICER

May 21, 2014

The Honorable James H. Merrill  
Chairman, House Ways & Means Committee – Retirement Ad Hoc Study Committee  
308C Blatt Building  
Columbia, South Carolina 29201

Dear Chairman Merrill:

The Human Resources and Compensation Committee (“HRC Committee”) of the South Carolina Retirement System Investment Commission (“Commission”) has received the feedback of the Ad Hoc Committee, and that feedback has and will continue to inform the HRC Committee’s discussions concerning changes to the Commission’s Performance Incentive Compensation (“PIC”) Policy. I would like to take this opportunity to update you on the actions that the HRC Committee has taken.

Since Ms. Sarah Corbett and I appeared before you to discuss the PIC plan on April 1, 2014, the HRC Committee was provided with all of your questions and input, and has met twice. Funston, the fiduciary audit firm that was hired by the Inspector General, released their report and presented their findings to the Commission on May 1, 2014. Funston made several recommendations regarding the HRC Committee, which have already been implemented. Those changes included changing the name of the Compensation Committee to the Human Resources and Compensation Committee, expanding the scope of the HRC Committee to include providing oversight over Human Resources matters, conducting an annual review of the RSIC’s implementation of the Compensation Policy, and conducting or procuring a new peer compensation study at least every three years to assess the current level of RSIC staff compensation and make revisions to target salary ranges, as appropriate. Also, Funston recommended that we hire a HR professional to assist with HR issues and the implementation of the compensation policy. An HR Director role has been created and we are currently in the process of recruiting for that position.

The HRC Committee has unanimously voted to recommend to the full Commission at its June 16, 2014 meeting, the issuance of a RFP for the purpose of hiring an independent compensation consultant to review the current PIC plan effective for FY15. The draft scope of that RFP is included as an attachment with this letter.

The current PIC Policy provides, in part, that “V. (D) 1) .... Actual individual maximum PIC opportunities for all eligible RSIC employees, other than the CIO, will be determined by the CIO, in consultation with the COO, and within the approved annual budget for personal services. The CIO’s maximum incentive levels are reviewed and approved by the Commission. 2) Actual individual maximum PIC opportunities can vary from position-to-position and from year-to-year, as determined by (i) the Commission, with regard to the CIO, and (ii) the CIO, in consultation with the COO, with regard to other eligible RSIC employees, based on their assessment of multiple factors, including, but not limited to: sustained individual performance, position-specific accountabilities, and competitive pay requirements.”

The HRC Committee believes and expects that the level of discretion contained within the current PIC Policy will allow the CIO and COO to give serious consideration and weight to the specific issues raised by the Ad Hoc Committee, including close attention to individual performance, and consideration of performance over time, each of which are contained within the governance policy cited above for the FY14 PIC implementation. As an additional measure as noted in the attached draft minutes, the HRC Committee voted:

“As a part of conducting the annual review of the Compensation Policy, and before payment of PIC by RSIC, the Human Resources and Compensation Committee will ensure that actual individual PIC opportunities are subject to an individual assessment in accordance with the Compensation Policy, section D, for fiscal year 2014.”

We appreciate the feedback of the Ad Hoc Committee and will continue to work with the HRC Committee and the Commission to incorporate your feedback into our Compensation Policy. We look forward to continuing to work with you as we further refine our Compensation and HR policies.

Sincerely,

A handwritten signature in black ink, reading "W. Greg Ryberg". The signature is fluid and cursive, with the first name "W." and last name "Ryberg" clearly distinguishable.

W. Greg Ryberg  
Chief Operating Officer

Attachments: 2

c.c. Members of the Commission



# South Carolina Retirement Systems Investment Commission

## Compensation Consultant RFP

### DRAFT Scope of Work

### 6/3/14

#### Background:

Effective October 1, 2005, the State Retirement System Preservation and Investment Reform Act (Act 153) established the South Carolina Retirement System Investment Commission (RSIC) and devolved fiduciary responsibility for all investments of the Retirement System upon the RSIC, which is a seven-member commission made up of five appointed members who must meet statutory criteria to serve, and the State Treasurer and the Executive Director of the Public Employee Benefit Authority (PEBA) who serve by virtue of their official capacities. Act 153 also provided that equity investments cannot exceed 70 percent of the total investment portfolio (formerly 40 percent) and created the position of Chief Investment Officer.

The assets of the Retirement System had historically been invested only in fixed income investments until a constitutional amendment was ratified in 1997. The amendment allowed the Retirement System to invest in "equity securities of a corporation within the United States that is registered on a national securities exchange as provided in the Securities Exchange Act, 1934, or a successor act, or quoted through the National Association of Securities Dealers Automatic Quotation System, or a similar service." S.C. Const. art. X, §16. The Retirement System began investing in equities in June 1999, although full diversification of the portfolio remained constrained by the state constitution. In November 2006, a constitutional amendment allowing for full diversification of the Retirement System's Portfolio was approved in a statewide referendum and subsequently ratified by the Legislature in February 2007. Since ratification, the Commission has taken steps to transition to a more diversified asset allocation, targeting approximately 40% percent of the Portfolio's allocation to alternative asset classes, including private equity, strategic partnerships, opportunistic credit, absolute return strategies, etc. The most recent asset allocation can be found on our website <http://www.rsic.sc.gov/>.

The RSIC currently has authority to employ 42 full time equivalent (FTE) positions.

The RSIC investment staff manage the portfolio utilizing internal and external investment managers. Internal management consists of cash management, short duration fixed income, core fixed income and basket trades. There are currently 17 investment professionals on staff including the CIO and the Deputy CIO. There are 4 open investment FTEs for which the RSIC is currently recruiting. There are three attorneys on staff and one legal vacancy, and 17 other operational positions including Operational Due Diligence, Performance and Reporting, Compliance and Internal Audit.

The Annual Investment Plan and the Statement of Investment Objectives and Policies can also be found on the website.

#### Mission:

The RSIC is responsible for investing and managing all assets held in trust for the participants and beneficiaries of five governmental defined benefit plans collectively referred to hereinafter as the "Retirement System" or "Systems."

The RSIC's primary investment objective is to provide, over long-term periods, an adequate pool of assets to support the benefit obligations to participants and beneficiaries of the Retirement System. A secondary objective is to reduce, over time, the unfunded liability of the Retirement System. In pursuing these objectives, the RSIC seeks to achieve a high level of investment return consistent with a prudent level of portfolio risk.

#### Goal of the Compensation Plan:

The compensation plan is a combination of salary and Performance Incentive Compensation ("PIC"). The compensation plan should be competitive to help the Commission recruit and retain superior talent, align the focus to be on long term returns with a prudent level of risk, to encourage staff to develop a strong commitment to the performance of the Portfolio while accomplishing a strong collective focus and individual accountability and provide a clearly defined compensation plan for all staff members.

#### Scope of Work:

The RSIC is seeking a compensation consultant for a three year term. The scope of work will vary in year 1 and year 2 and 3.

#### Year 1 Scope:

Review and compare the current compensation plan (including salary levels and ranges for each position and the Performance Incentive Compensation (PIC) plan design, target awards, and eligibility) for all staff (including executive management, investment staff, attorneys, auditors and investment operations staff) to best practice in the Investment Industry. Present all recommendations on the compensation plan as described above for review by the Human Resources & Compensation (HRC) Committee of the Commission and/or the full Commission. Peers to consider in evaluating the compensation plan should include but not be limited to other public pension funds, endowments, foundations, banks and asset management firms with investment portfolios of similar complexity. Further segregate the data by region, Assets Under Management (AUM), and internal/external management mix of assets. Provide an overview of other public funds incentive compensation plans. Solicit through interview or survey feedback from analysts, managers, senior and executive RSIC staff, and Commissioners regarding the PIC plans and total compensation plans.

#### Year 1 Deliverables<sup>1</sup>:

- 1) Meet in person or via phone with RSIC staff and Commissioners as needed throughout the project, including during public meetings as well as individual interviews.
- 2) Before September 30, 2014, provide a report detailing the structure of compensation packages in other public pension plans. This report should describe if PIC plans are offered, if so how they are structured and any known advantages or disadvantages of the PIC plans.
- 3) Before October 20, 2014, deliver multiple options for a total compensation package. This should include potential compensations plans that include varying levels of PIC and salary as well as various factors that should be utilized in determining the level of salary and/or PIC. The advantages and disadvantages of each potential compensation plan should be outlined.
- 4) Before November 10, 2014, and based upon input from the Commission deliver a recommended compensation plan that meets the goals as described above and addresses the salary level ranges, including base salary versus bonuses, the PIC plan (design, target awards, and eligibility) for all staff members and positions to be effective for the fiscal year ended June 30, 2015.
- 5) Before October 20, 2014 develop and recommend a custom peer group to be used as a basis for salary and PIC on an on-going basis.

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<sup>1</sup> Dates in this section are tentative and will be adjusted if necessary based upon advice from State Procurement.

- 6) Before November 10, 2014 develop and recommend salary ranges for each full time position with the RSIC based upon custom peer data as chosen by the Commission.

Year 2 & 3 Scope and Deliverables:

- 1) Provide assistance to the HRC Committee in fulfilling its duty to conduct an annual review of the RSIC implementation of the Compensation Policy.
- 2) Provide a report to the HRC Committee that summarizes and comments on the effectiveness and completeness of the implementation of the PIC plan each year.
- 3) Provide annual updates to the pay ranges for each position completed as part of Year 1 scope of work. Assist in developing pay ranges for any new positions creating during Year 2 or 3.
- 4) Conduct presentations/phone interviews to the HRC Committee and/or Commission, as needed.

Evaluation Committee:

RSIC Staff will work with State Procurement to evaluate vendors. The final selection will be presented to the HRC Committee prior to final approval.

Staff Evaluators:

Sarah Corbett  
 Danny Varat  
 Dori Ditty  
 Andrew Chernick

Commissioner Oversight:

Ed Giobbe  
 Rebecca Gunnlaugsson  
 Ron Wilder

Evaluation Criteria:

Experience (Most important – 60%)  
 Cost (30%)  
 Methodology (10%)

Minimum Requirements:

Vendor must demonstrate previous experience in developing or evaluating compensation levels and performance incentive compensation plans for clients such as public pension funds, endowments, foundations, banks or asset managers with portfolios of similar complexity to that of the RSIC. Vendor must have experience in evaluating compensation and PIC structures for alternative asset classes.

Questions - Experience:

- 1) Provide a background of your company.
- 2) Provide a background of the consultants who will be assigned to our account.
- 3) Provide a copy of a previous compensation evaluation/development work product.
- 4) Provide a list of previous clients including the Assets Under Management (AUM), region and staff size. Specifically provide how much of the assets are allocated to alternative investments. Provide entity type (public pension fund, endowment, foundation, etc.), dates of service and type of service performed.
- 5) Provide at least three current references.

Questions – Cost:

- 1) Provide the cost structure for this engagement. Break out the cost for each year of the engagement.

Questions – Methodology:

- 1) Describe the methodology that will be used to evaluate and develop the compensation levels and PIC plan for RSIC staff. Specifically identify additional information that your firm will have to gather and the time frames required for gathering that information in order to complete this engagement.
- 2) Specifically identify any efforts that would need to be made by RSIC in order for you to complete the study. The deliverables must be completed by October 30, 2014. Please indicate if you can meet this requirement.

Potential Vendors:

McLagan Partners  
The Hay Group  
Mercer  
Towers Watson  
Aon Hewitt  
Boston Consulting

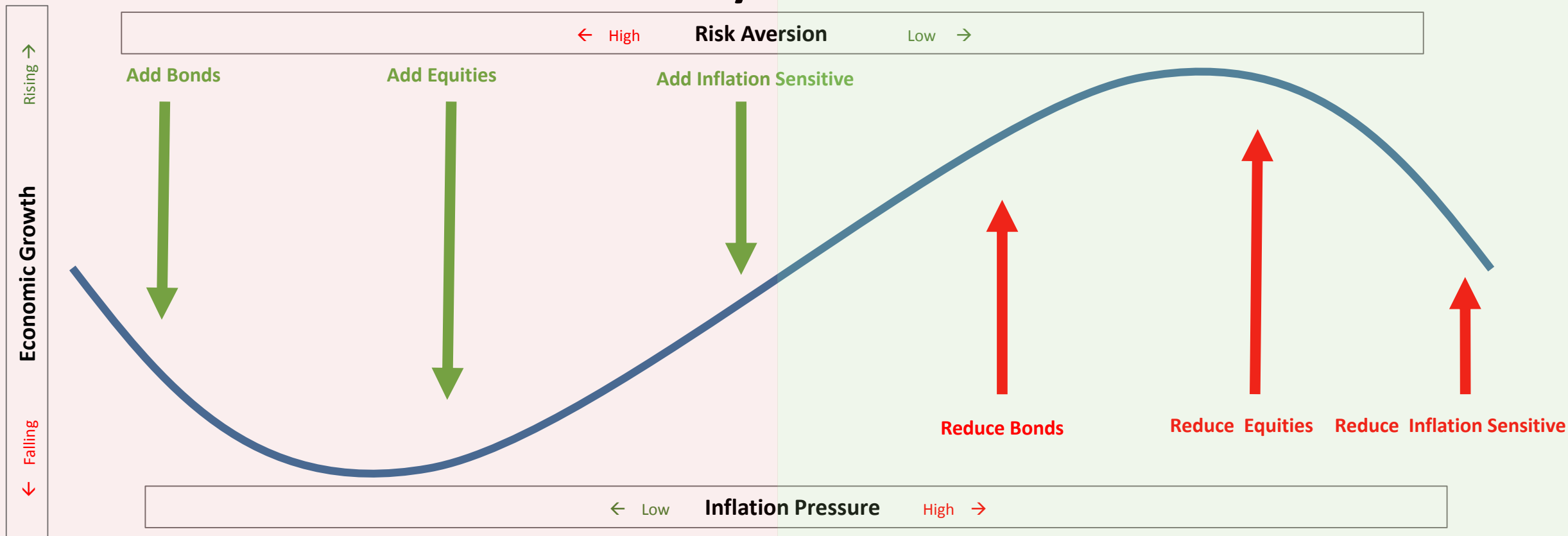
# RSIC Market Dashboard

## Spring 2014

### Highlights

- Economic data has been positive, but recent trends suggests the economy has just transitioned past the mid-point of the business cycle
- Earnings growth rates appear to have peaked. Margins are at all time highs and revenues will need to propel further growth. Margins are likely to come under pressure as a result of increases in capacity utilization and a tighter labor market
- Federal Reserve liquidity has reduced volatility, allowed asset prices to risk and reduced expected long term returns for almost all US asset classes.
- It has also stabilized the US financial system. Currently stress signals are all very low, spreads are tight and banks continue to ease lending standards slowly.
- Businesses and households seem reluctant to borrow and continue to actively de-lever. Businesses are much farther along than households

# Business Cycle Overview



## Economic Data

- Policy Easing
- Credit contracts
- Activity falls
- Inflation falls
- Confidence falls



- Policy stimulates
- Credit grows
- Activity recovers
- Inflation flat
- Growth bottoms
- High Unemployment
- Low Cap. Util.



- Equilibrium
- Policy neutral
- Inflation low
- Moderate growth



- Policy Tightens
- Credit Tightens
- Inflation rises
- Low UE
- High Cap. Util.
- Confidence High

## Market Data

- Profits fall
- Spreads widen
- Volatility Rises
- Correl. Rise
- Inverted YC



- Margins expand
- Steep Yield Curve
- PE multiple Expansion

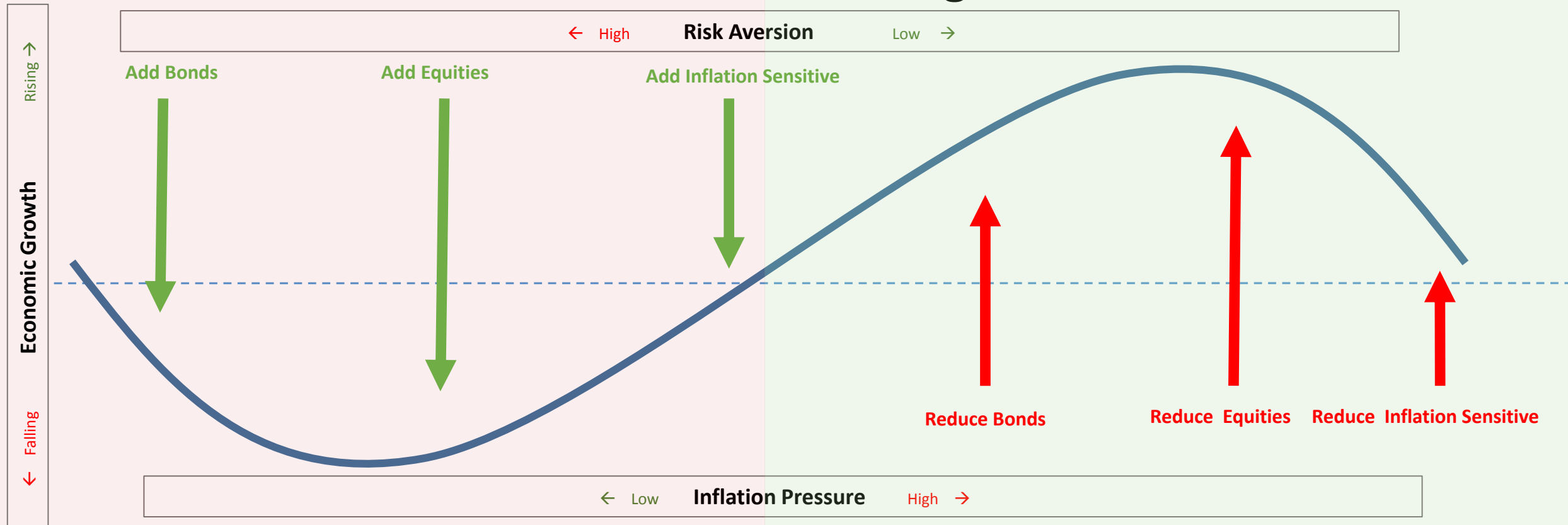


- Revenues expand
- Low Volatility
- Strong EPS Growth
- Credit Spreads contract



- Margins contract
- Higher Volatility

# Portfolio Positioning



## Portfolio Tilts

- Generally more defensive
- Add sovereign Exposure
- Transition to higher rated credit (and cash)
- Reduce commodity focused EM exposure
- Add duration
- Reduce equity exposure and focus on less cyclical industries
  - Consumer staples
  - Utilities
  - Healthcare
  - Telecom



- Increase exposure to to riskier assets
- Add to equity, credit and commodity positions
- Early Cycle Equity Exposure
  - Financial
  - Technology
  - Consumer Disc
  - Industrials



- Reduce Duration and rate exposure as inflation and tightening drive rates higher
- Maintain exposure to risky assets as growth improves driving profits and credit expansion
- Add to TIPS
- Equity Positioning
  - Tech (margin pressure)
  - Industrials (strong growth)



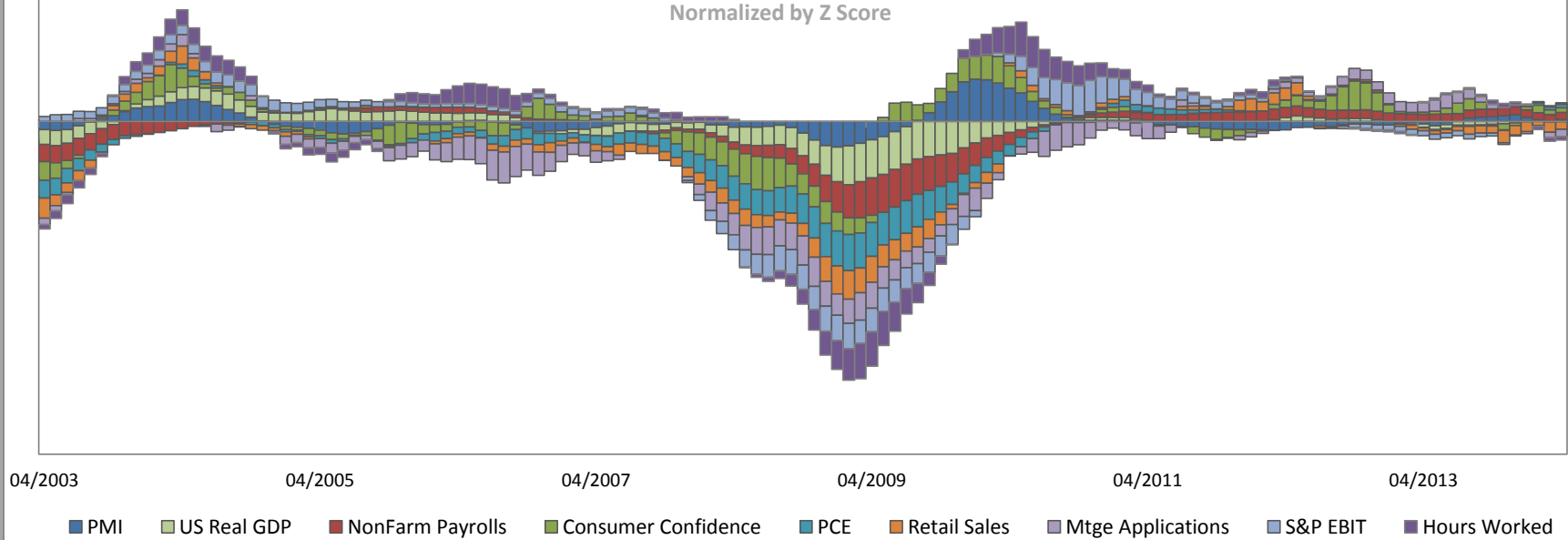
- Reduce exposure to risky assets as growth peaks
- Reap gains in inflation sensitive assets as cash flows peak with inflation
- Reap gains in growth sensitive commodities such as energy and base metals which do well in late cycle
- Equity Positioning
  - Utilities, HC, CS Telecom (stable growth)
  - Energy, Materials (late cycle)

# Economic Data & Surprises



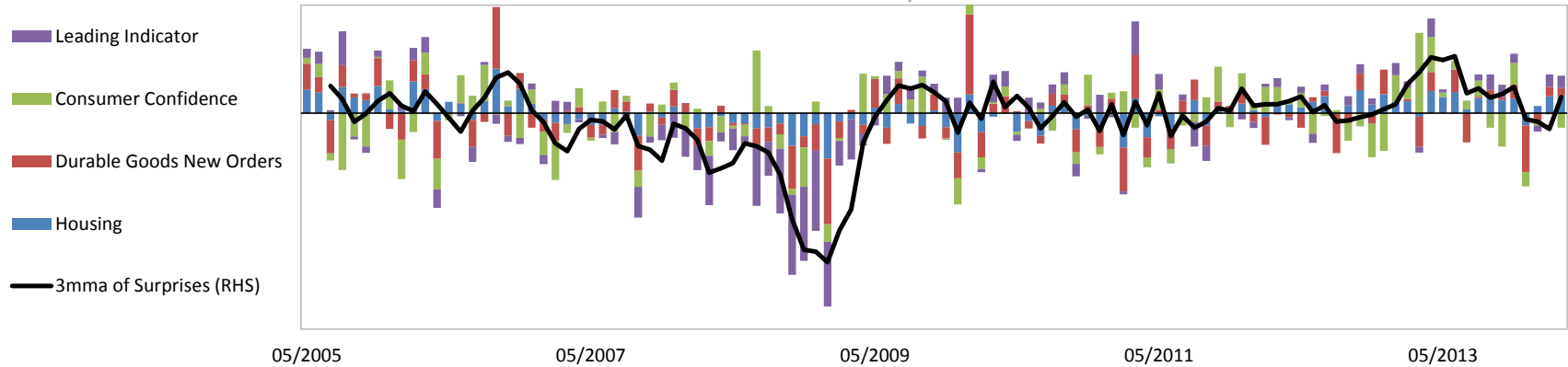
## Key Economic Data

Normalized by Z Score



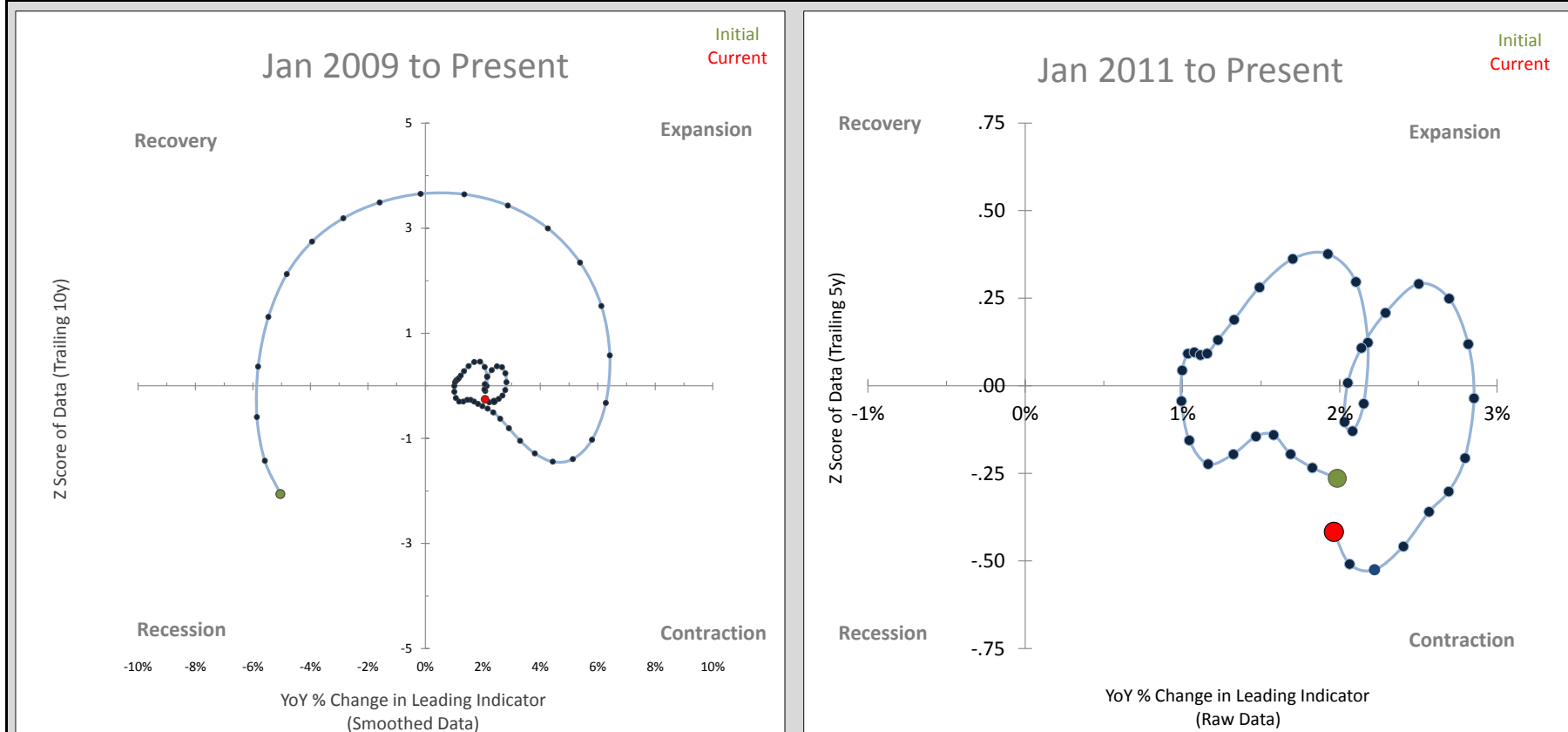
## Economic Surprises

Normalized by Z Scores





# Economic Cycle Chart



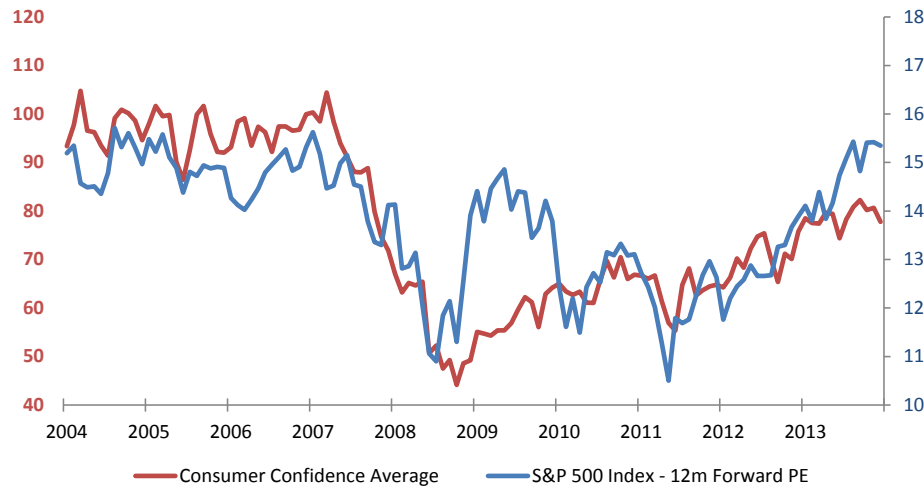
Data Series	Last Update	1M Change	3M Change	6M Change	1 Year
Dwellings started	3/31/2014	↑ 2.8%	↓ -7.6%	↑ 8.4%	↓ -5.9%
Net new orders for durable goods (USD)	3/31/2014	→ -0.3%	→ 0.0%	→ 1.5%	→ 0.9%
Share prices: NYSE composite	4/30/2014	→ 0.9%	↑ 2.6%	↑ 6.8%	↑ 15.6%
Consumer sentiment indicator (U. Mich)	5/31/2014	↓ -2.7%	→ 0.2%	↑ 8.9%	↓ -3.2%
Weekly hours of work :Manufacturing	4/30/2014	→ 0.0%	→ -0.1%	→ -0.6%	→ -0.8%
Purchasing managers index	4/30/2014	→ 2.2%	↑ 7.0%	↓ -3.0%	↑ 9.8%

# Market Conditions

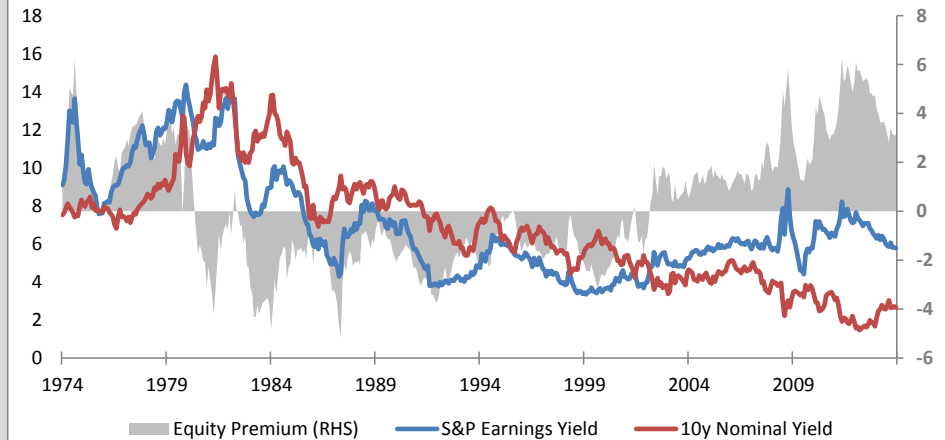


Data Updated 5/27/2014

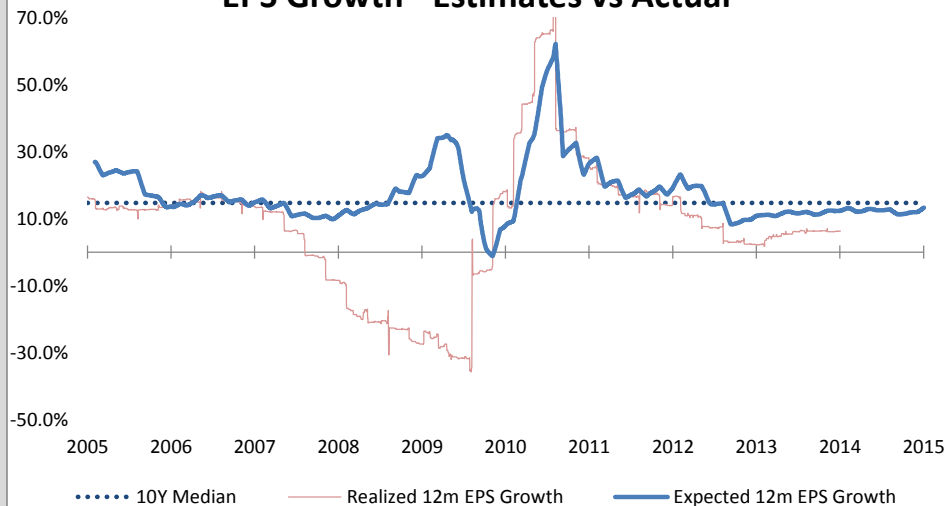
## Multiple Expansion



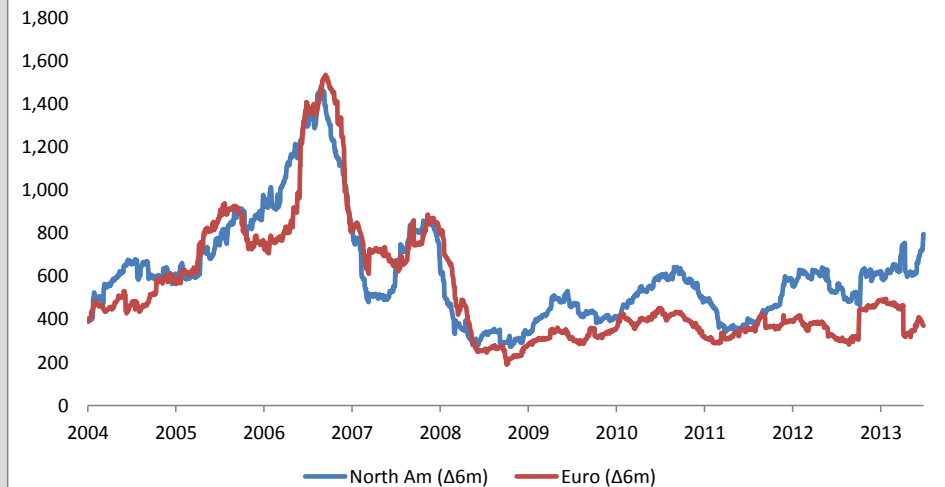
## Earnings Yield vs Nominal Yield Equity Risk Premium



## EPS Growth - Estimates vs Actual



## M&A Activity

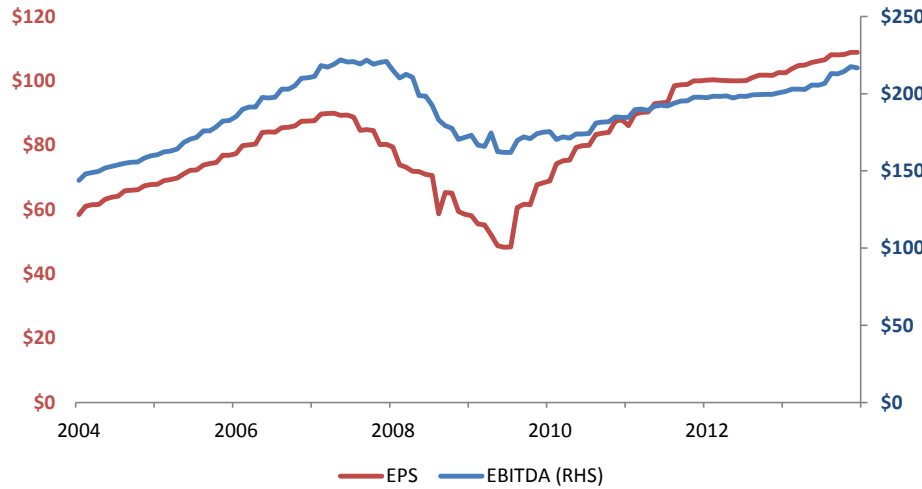


# Business Conditions

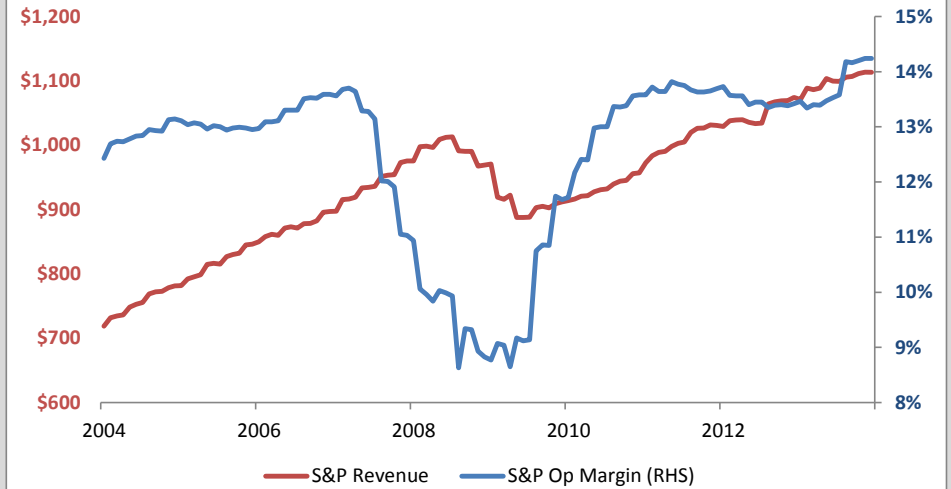


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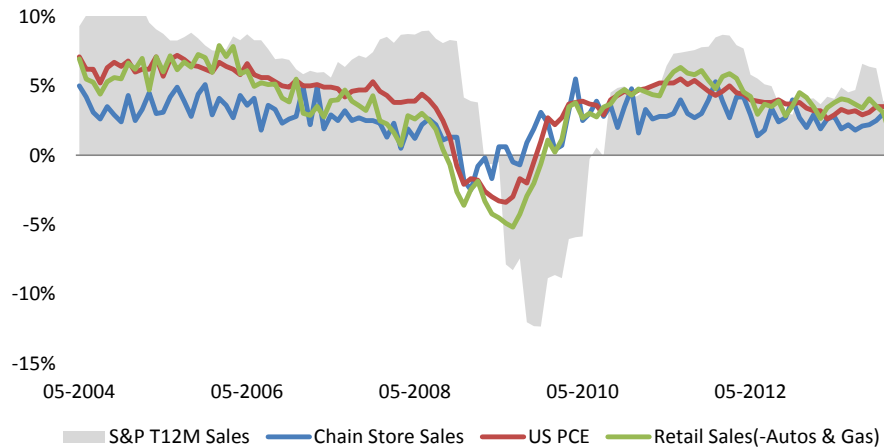
## S&P Earnings



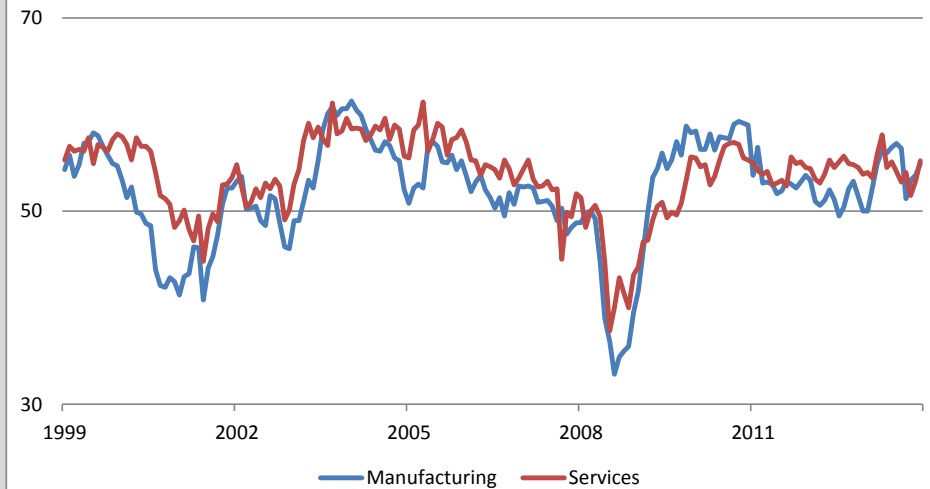
## Revenue and Margins



## Spending & Sales YoY % Change



## ISM Purchasing Manager Index

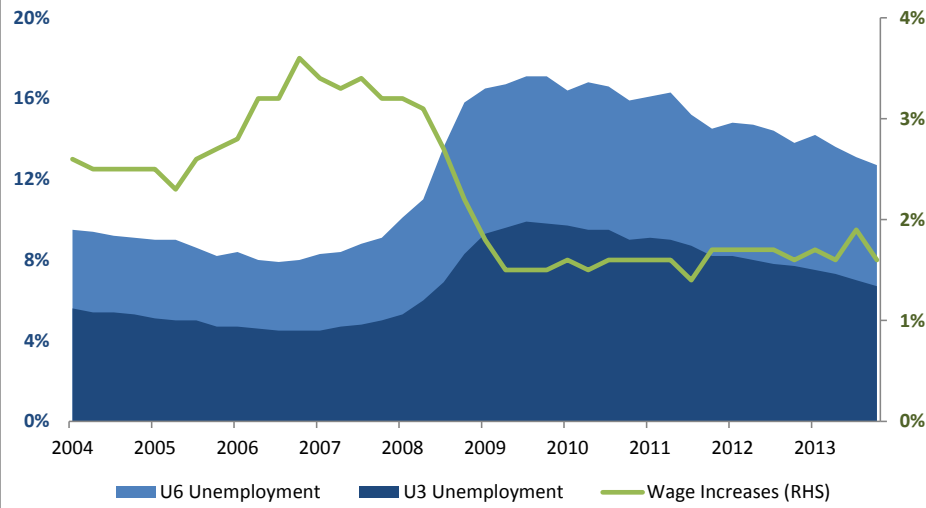


# Business Conditions

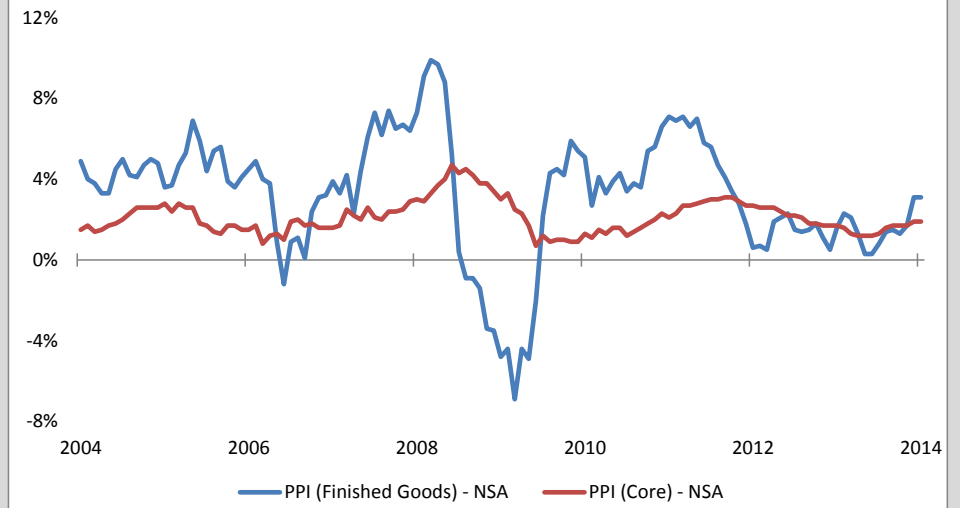


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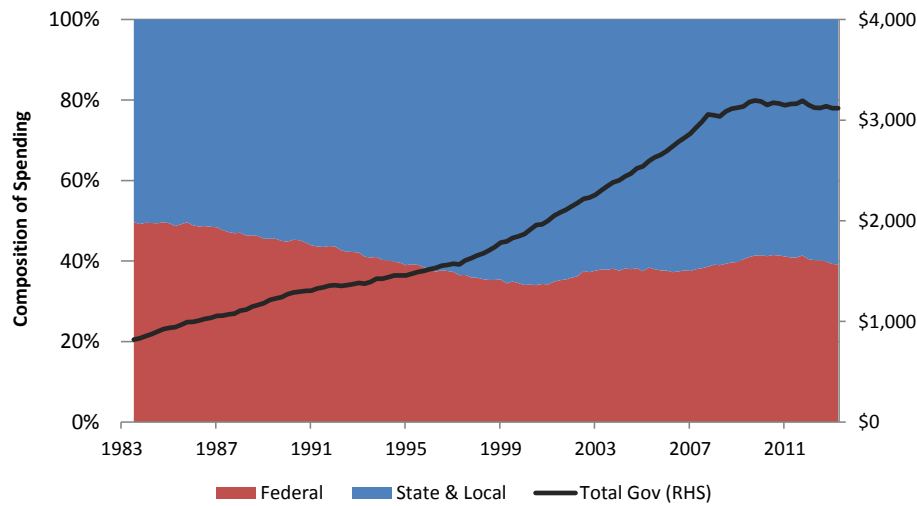
## Labor Market Conditions



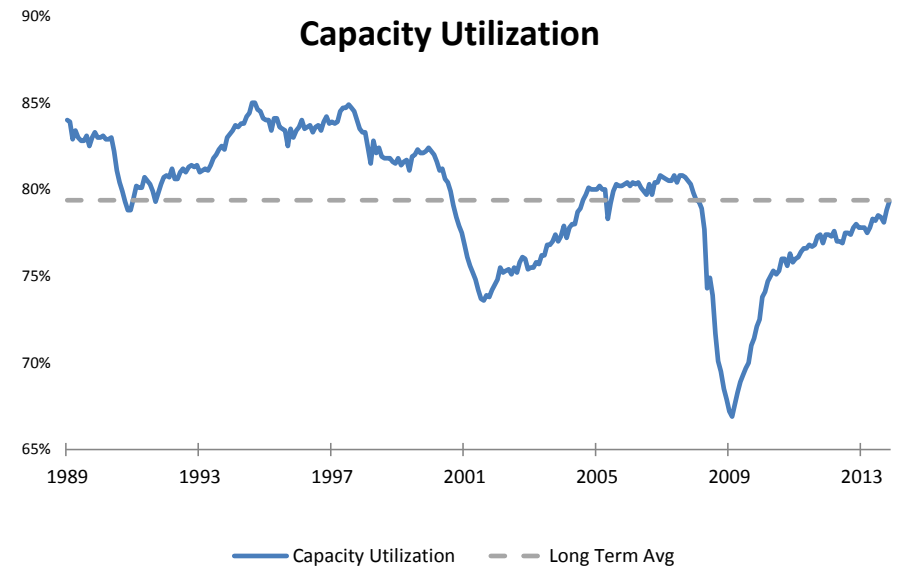
## US PPI



## Government Spending



## Capacity Utilization

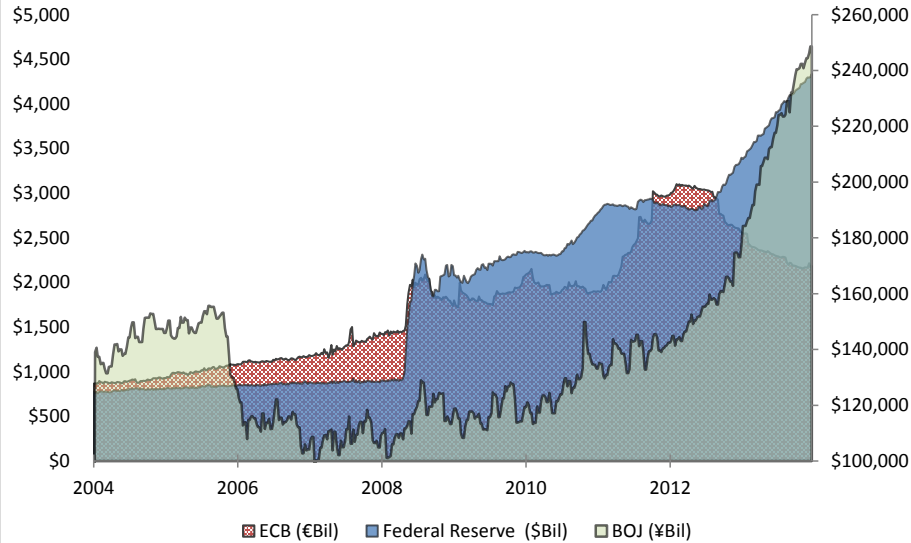


# Financial Conditions

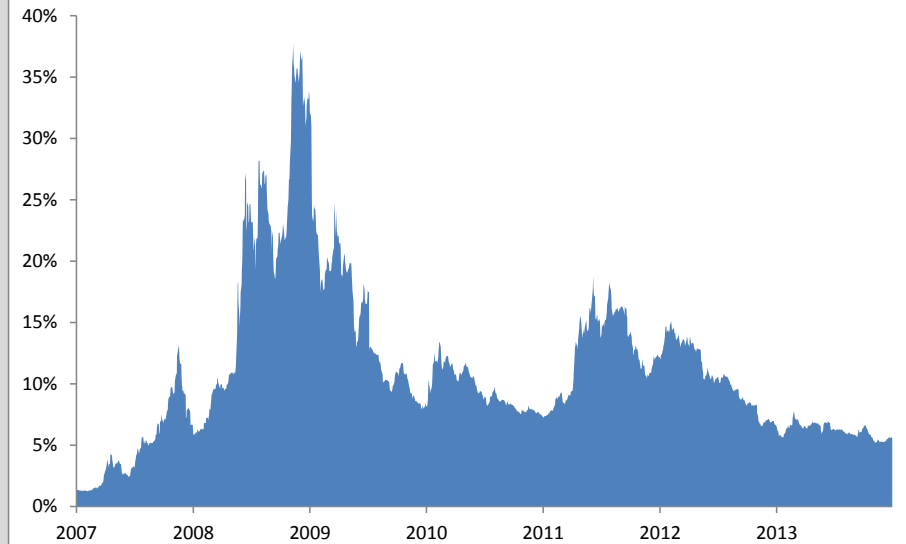


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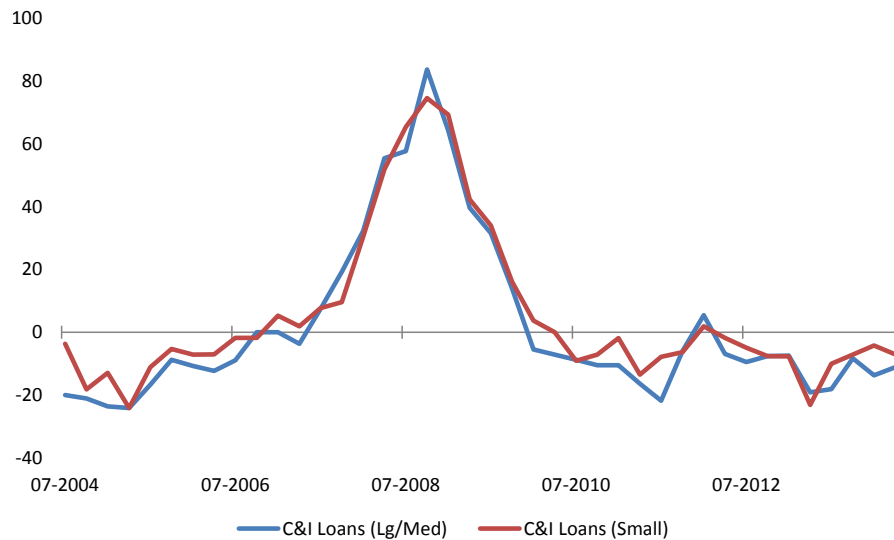
## Central Bank Balance Sheet Expansion



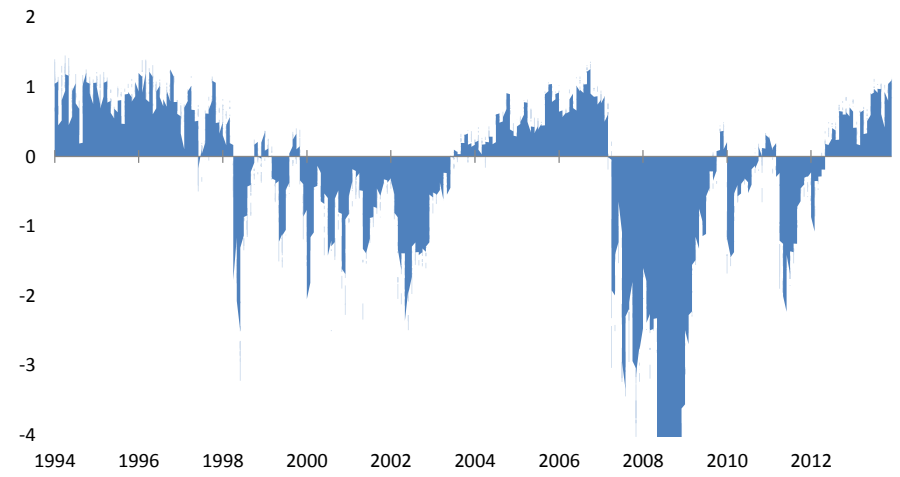
## Financial CDS



## Fed Lending Survey - % Tightening



## Bloomberg Financial Conditions Index



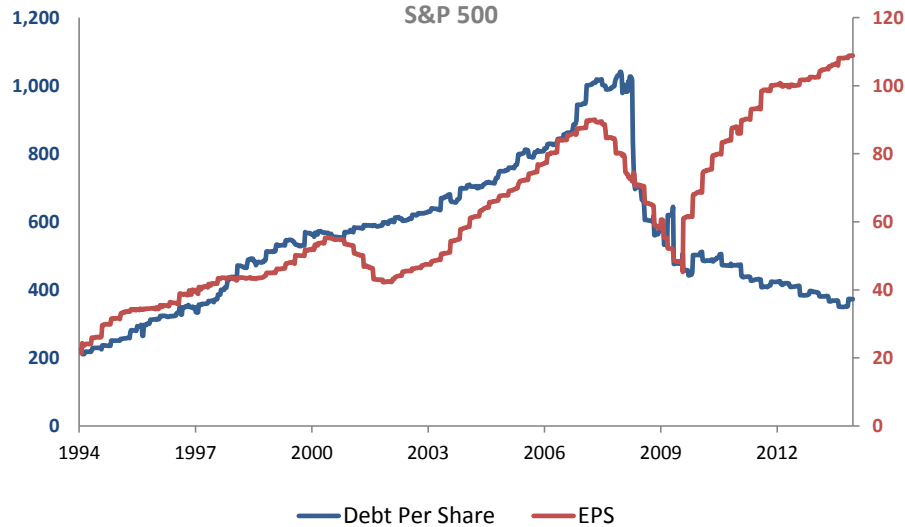
# Business Leverage



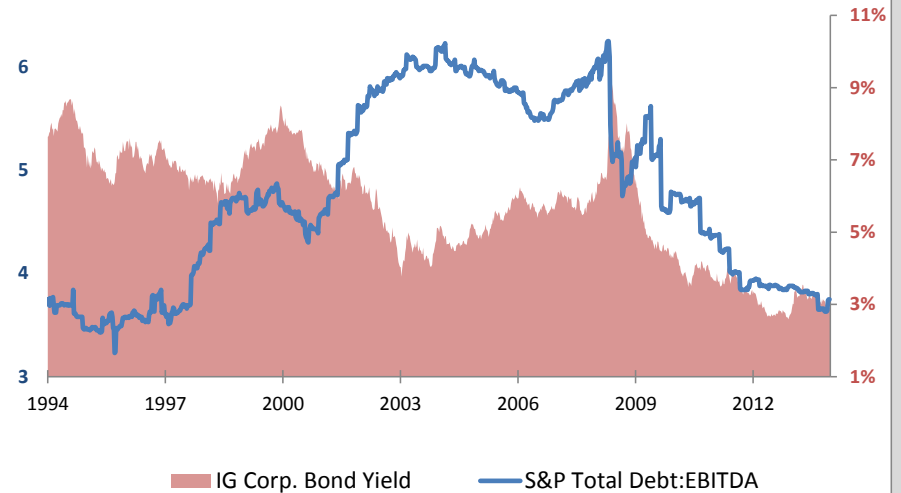
Data Updated 5/27/2014

## Significantly Less Leverage

S&P 500

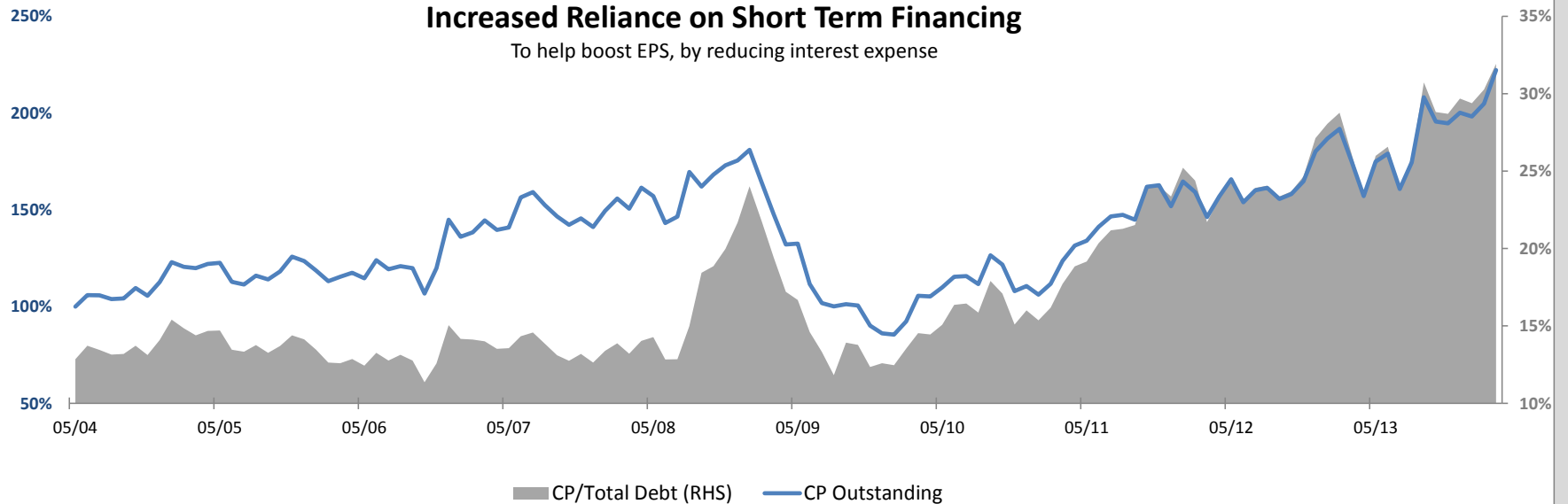


## Significantly Lower Interest Expense



## Increased Reliance on Short Term Financing

To help boost EPS, by reducing interest expense

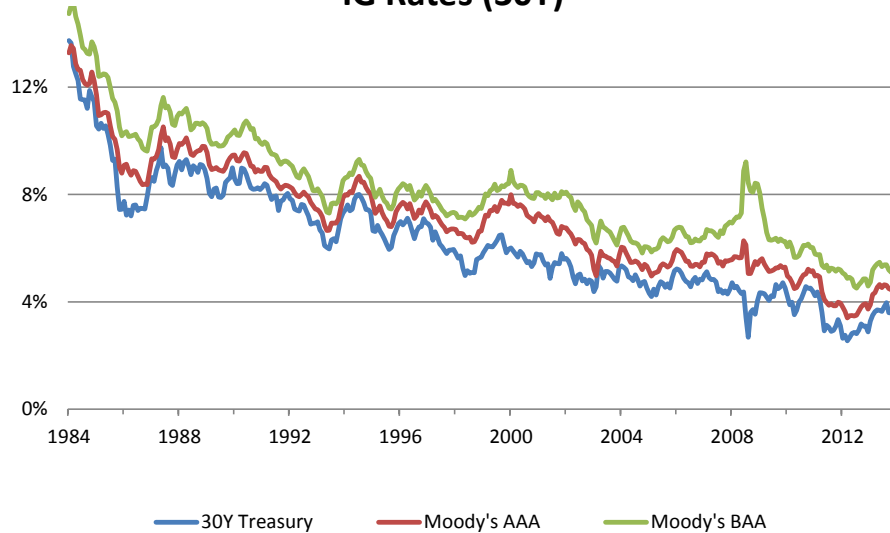


# Interest Rates and Spreads

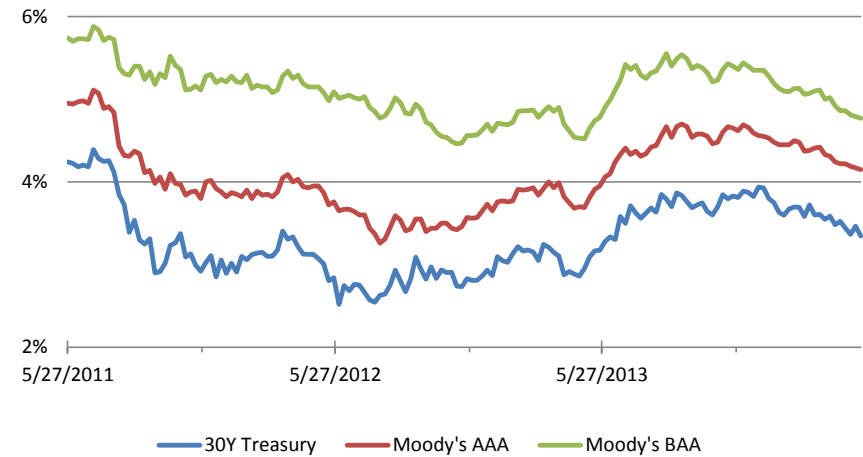


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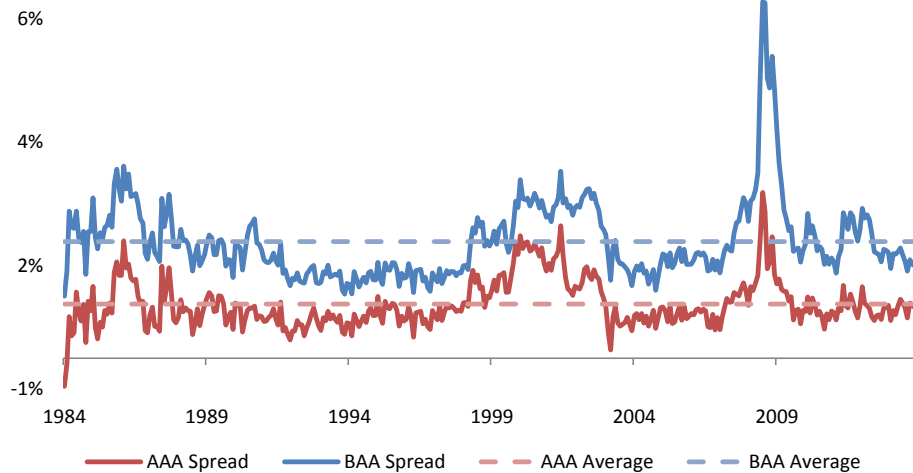
## IG Rates (30Y)



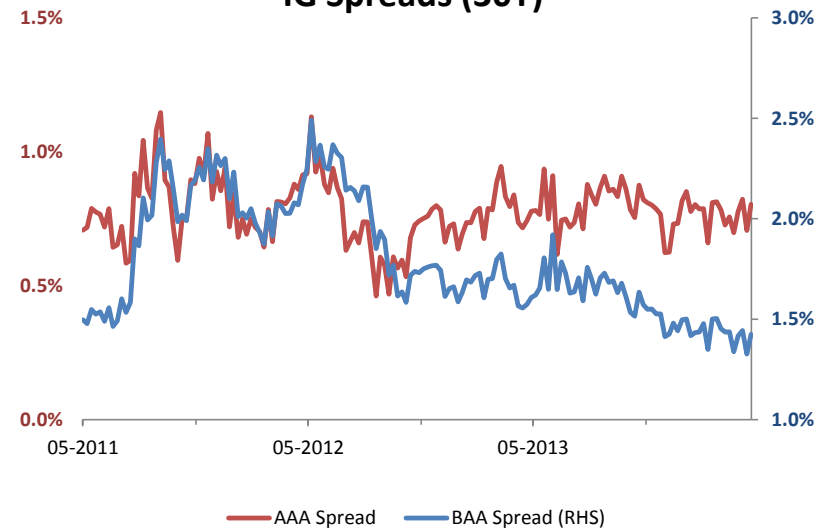
## IG Rates (30Y)



## IG Spreads (30y)



## IG Spreads (30Y)

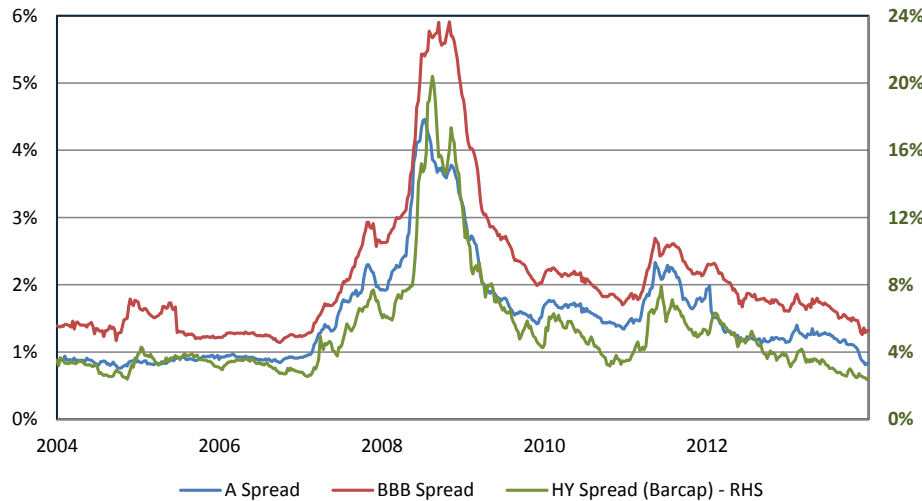


# Credit Spreads and Stress

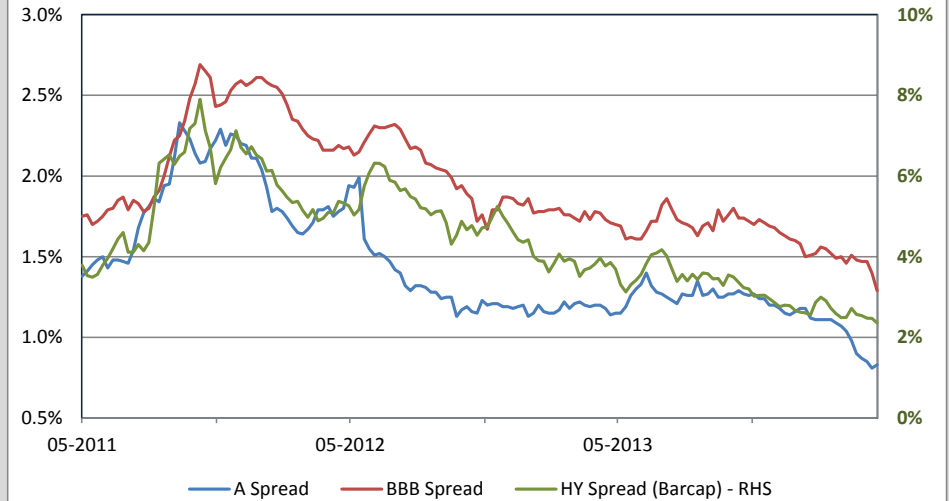


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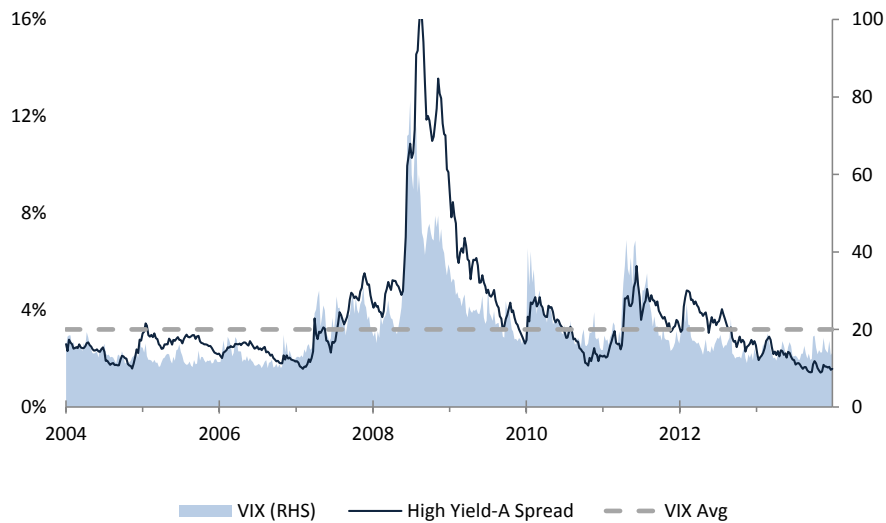
## Corporate Spreads (10Y)



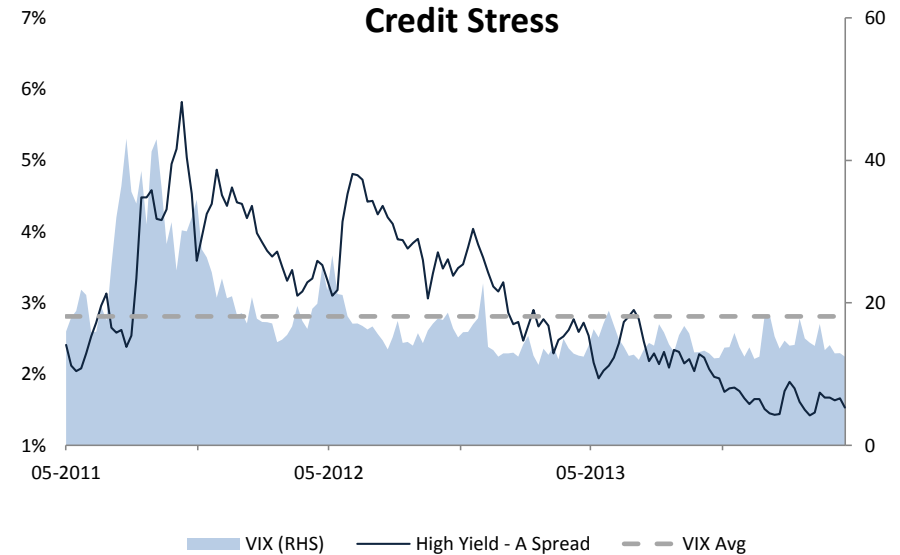
## Corporate Spreads (10Y)



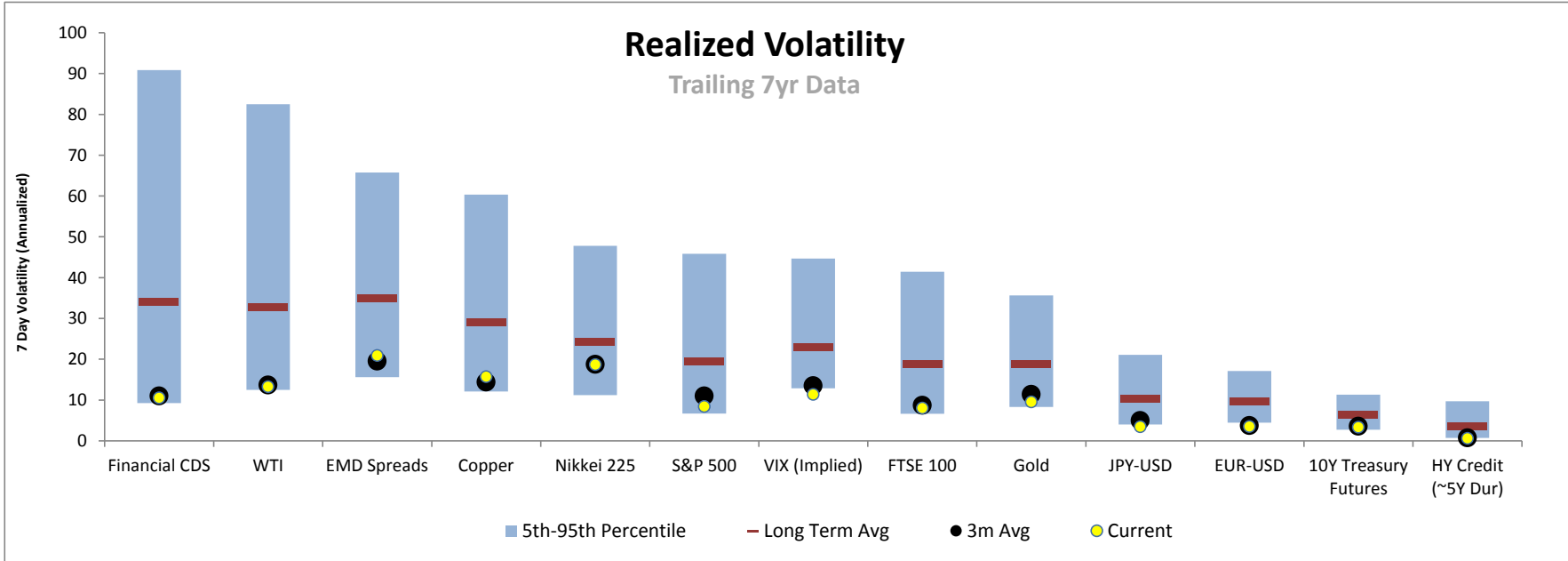
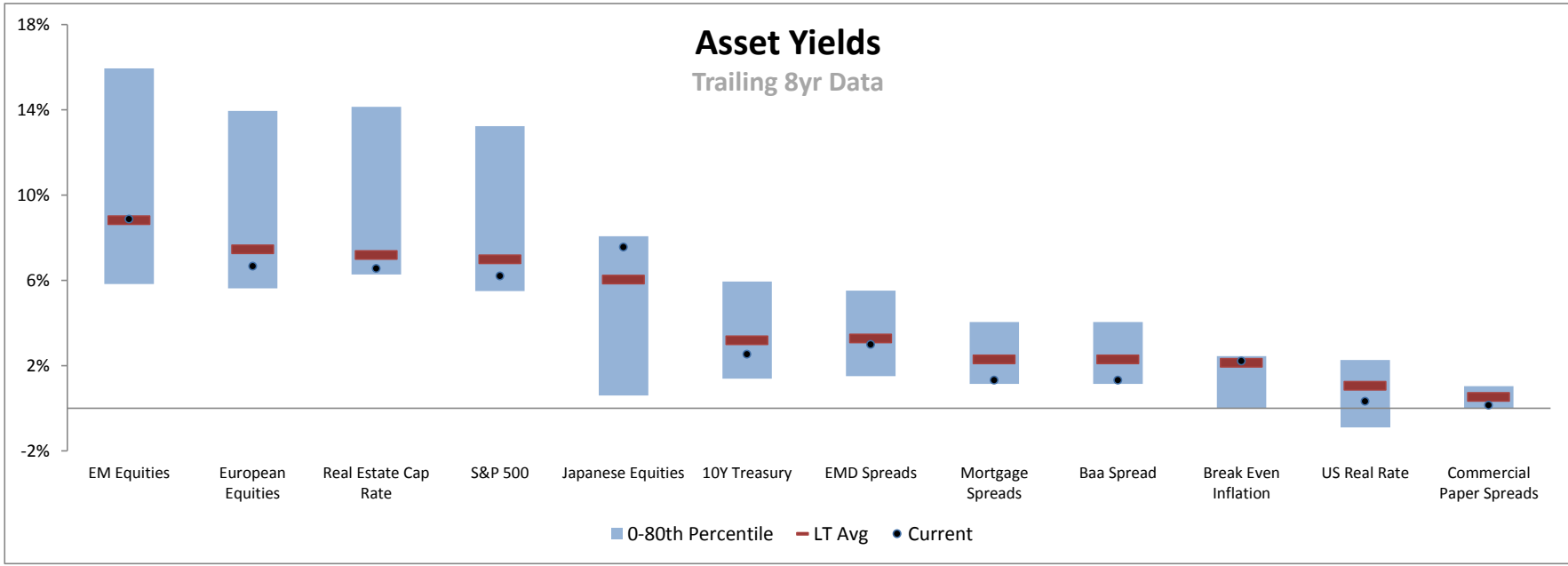
## Credit Stress



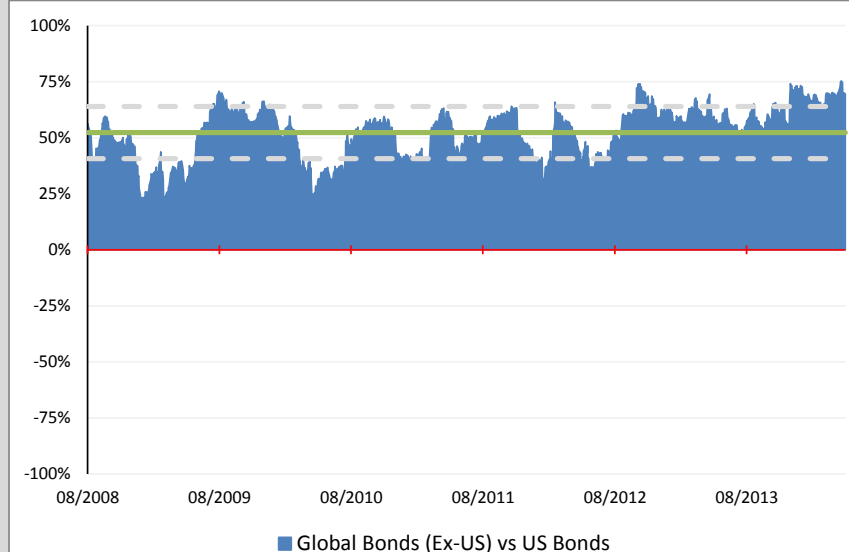
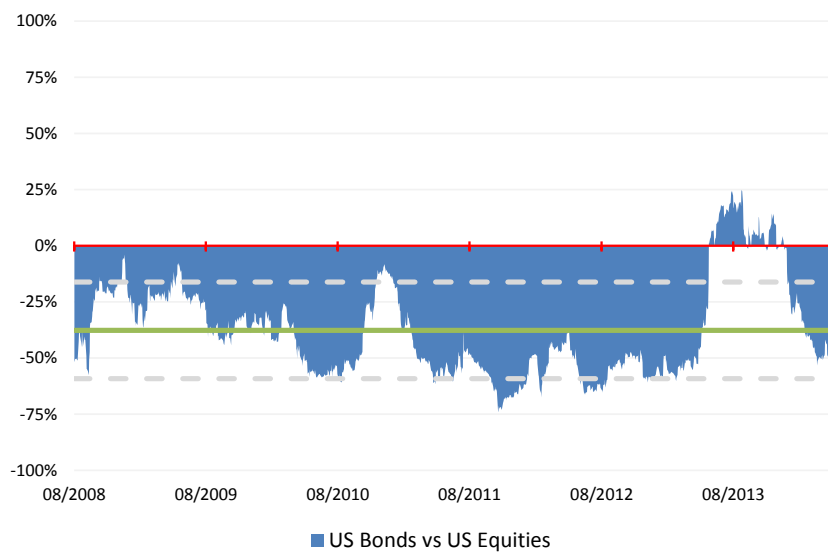
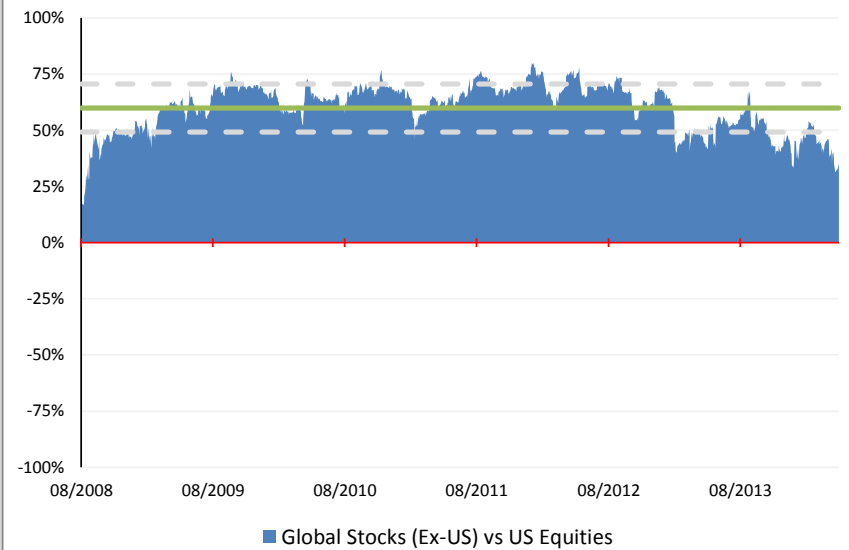
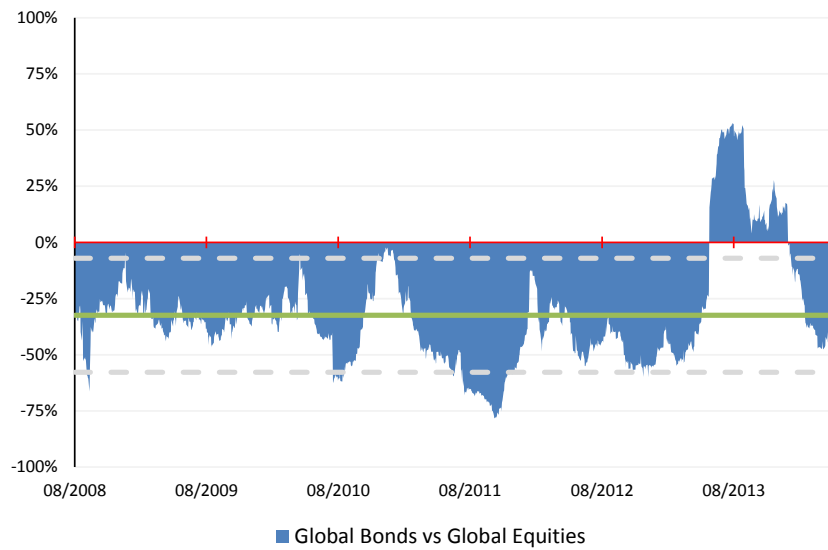
## Credit Stress



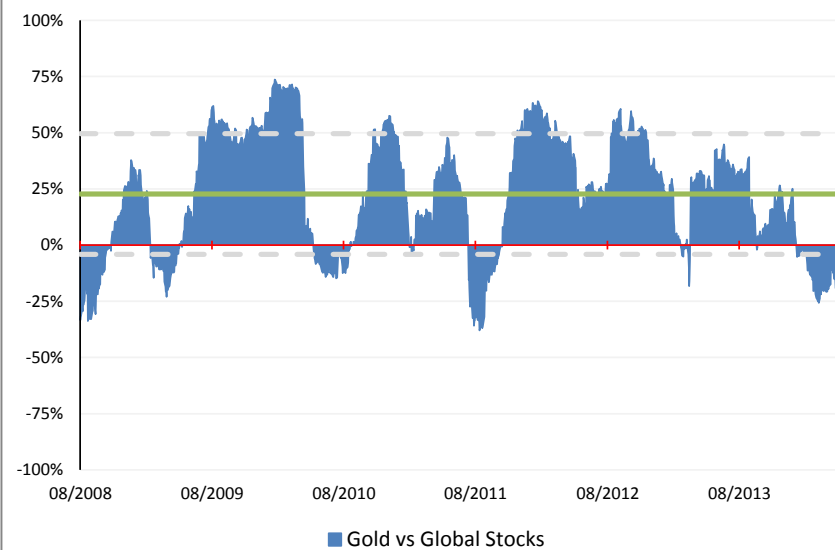
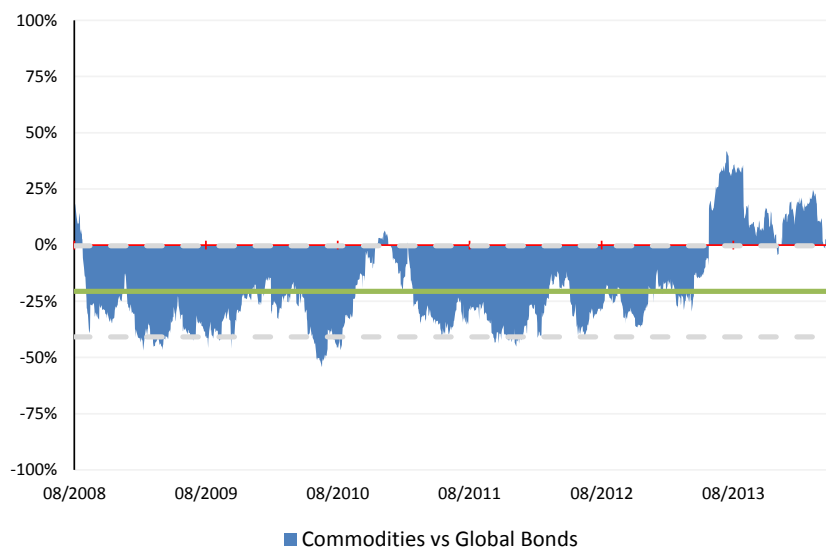
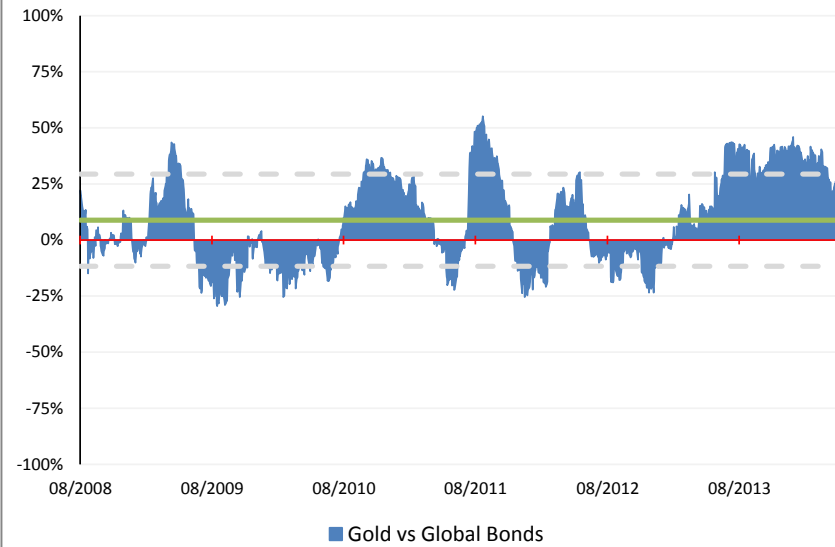
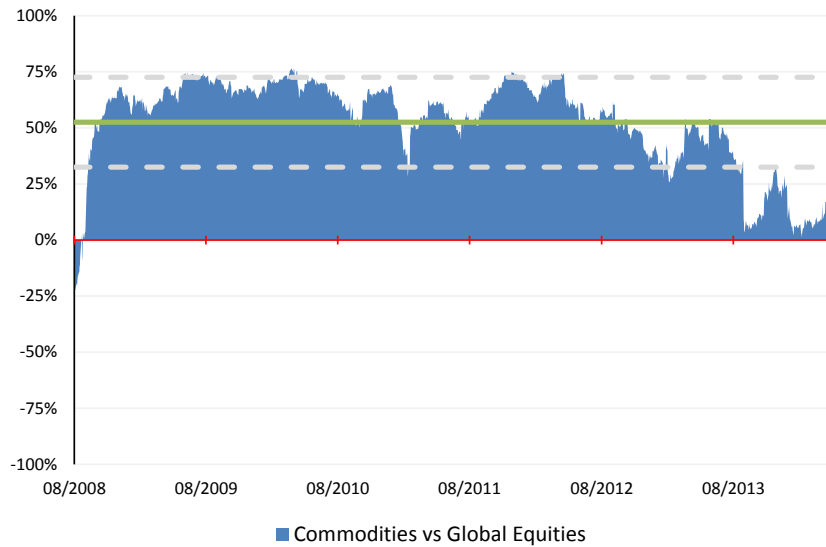




# Asset Correlations

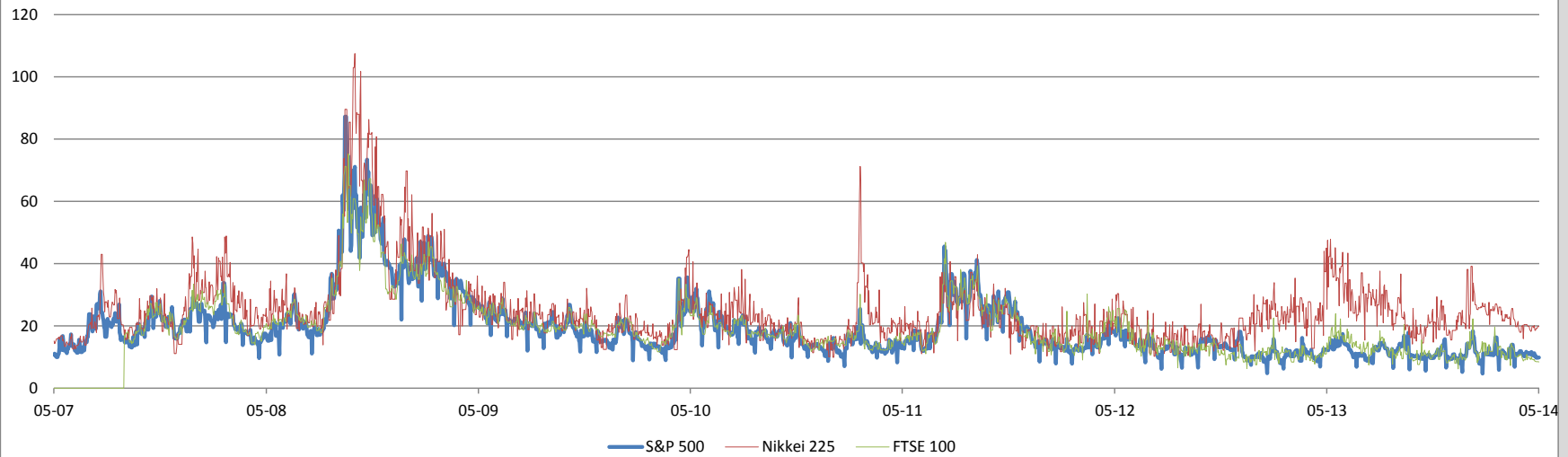


# Asset Correlations

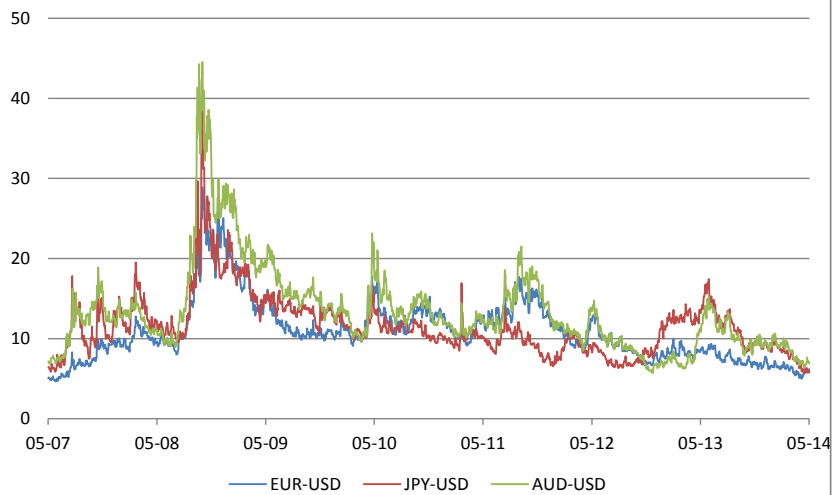


# Implied Volatilities

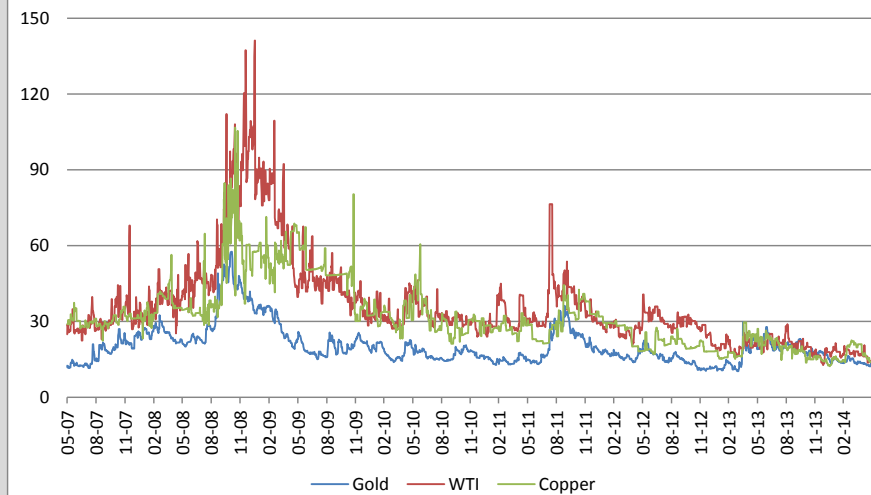
## Equity Implied Vol



## FX Implied Vol



## Commodity Implied Vol



# Performance Update

RSIC Internal Reporting

June 16-17, 2014



# Performance – Capital Markets

As of March 31, 2014

Market Performance	Month	3 Month	FYTD	1 Year	2 Years	3 Years	5 Years
80% Russell 3000/20% MSCI EAFE+300 Bps 3-mo. lag	2.75%	9.28%	<b>21.48%</b>	34.40%	26.82%	17.66%	20.51%
MSCI All-Country World Index Net	0.44%	1.08%	<b>17.05%</b>	16.55%	13.51%	8.55%	17.80%
NCREIF Open-end Diversified Core (ODCE) 75 Bps	3.12%	3.25%	<b>11.57%</b>	14.69%	13.18%	14.36%	4.45%
50% MSCI World / 50% S&P/Citi WGBI	0.03%	2.01%	<b>11.30%</b>	10.02%	7.80%	6.24%	11.15%
Dow Jones-UBS Commodity Index	0.41%	6.99%	<b>8.12%</b>	-2.10%	-2.56%	-7.37%	4.24%
HFRI Fund weighted Composite Index	-0.35%	1.05%	<b>6.84%</b>	6.45%	5.84%	3.00%	7.94%
1/3 BC U.S. High Yield, 1/3 S&P/LSTA 1/3 BC MBS	0.09%	1.92%	<b>5.12%</b>	4.00%	5.77%	5.60%	11.34%
S&P/LSTA Leveraged Loan + 150 Bps 3-month lag	0.44%	1.91%	<b>4.08%</b>	6.79%	8.95%	6.94%	15.89%
50% JPM EMBI USD / 50% JPM GBIEM Local	2.09%	2.84%	<b>3.22%</b>	-3.31%	2.63%	4.15%	10.81%
Barclays Global Aggregate Bond Index (Hedged)	0.10%	2.04%	<b>3.10%</b>	1.32%	3.17%	4.39%	4.53%
Barclays US Aggregate Bond Index	-0.17%	1.84%	<b>2.28%</b>	-0.10%	1.82%	3.75%	4.80%
Barclays 1-3 Year Government/Credit Index	-0.09%	0.23%	<b>0.81%</b>	0.68%	0.89%	1.18%	1.95%
Merrill Lynch 3-Month T-Bill	-0.07%	0.11%	<b>0.38%</b>	0.31%	0.41%	0.63%	0.87%



# Performance – Plan and Asset Class (as Reported)<sup>1</sup>

As of March 31, 2014

Executive Summary	Mkt Val	Month	3 Month	FYTD	1 Year	2 Years	3 Years	5 Years
<b>TOTAL PLAN (Net of Fees)</b>	<b>\$29,016</b>	<b>0.63%</b>	<b>2.21%</b>	<b>11.20%</b>	<b>10.18%</b>	<b>9.93%</b>	<b>7.50%</b>	<b>13.12%</b>
<i>POLICY BENCHMARK</i>		<i>0.68%</i>	<i>2.47%</i>	<i>10.74%</i>	<i>10.00%</i>	<i>8.79%</i>	<i>6.83%</i>	<i>11.47%</i>
Relative Performance		-0.05%	-0.26%	0.46%	0.18%	1.14%	0.67%	1.65%
<i>Cumulative Benefit Payments (Net)<sup>2</sup></i>		(\$76)	(\$259)	(\$767)	(\$1,012)	(\$1,977)	(\$3,015)	(\$4,785)

Managers Performance	Mkt Val	Month	3 Month	FYTD	1 Year	2 Years	3 Years	5 Years
<b>TOTAL PLAN</b>	<b>\$29,016</b>	<b>0.63%</b>	<b>2.21%</b>	<b>11.20%</b>	<b>10.18%</b>	<b>9.93%</b>	<b>7.50%</b>	<b>13.12%</b>
<i>POLICY BENCHMARK</i>		<i>0.68%</i>	<i>2.47%</i>	<i>10.74%</i>	<i>10.00%</i>	<i>8.79%</i>	<i>6.83%</i>	<i>11.47%</i>
Global Public Equity	\$4,120	0.52%	0.33%	15.39%	11.88%	11.77%	5.70%	18.85%
Private Equity	\$2,815	2.80%	5.16%	15.21%	19.93%	17.33%	13.73%	12.43%
Real Estate	\$1,082	2.60%	3.71%	14.65%	18.12%	16.99%	11.60%	9.09%
Private Debt	\$1,698	1.57%	3.48%	11.88%	16.74%	14.85%	10.01%	15.27%
HF (Low Beta)	\$2,656	-0.52%	2.14%	9.81%				
GTAA	\$1,930	0.56%	2.84%	9.43%	4.47%	7.32%	8.68%	11.91%
Mixed Credit	\$2,169	0.34%	2.59%	7.87%	7.38%	8.94%	5.85%	15.30%
Global Fixed Income	\$1,067	0.26%	2.51%	5.14%	0.83%	3.99%	4.47%	10.97%
Core Fixed Income	\$2,531	-0.38%	1.70%	2.27%	-0.45%	2.31%	4.08%	6.02%
EM Debt	\$916	2.45%	2.75%	2.11%	-4.70%	2.22%	2.90%	
Short Duration	\$3,495	-0.05%	0.27%	1.31%	1.10%	1.55%	1.76%	
Cash	\$3,089	-0.10%	-0.06%	-0.12%	0.91%	-0.54%	0.03%	0.11%
Commodity	\$0							



# Performance – Plan and Asset Class (Adjusted)\*

As of March 31, 2014

Blended Performance	Mkt Val	Month	3 Month	FYTD	1 Year	3 Years	5 Years
<b>TOTAL PLAN</b>	<b>\$29,016</b>	<b>0.63%</b>	<b>2.21%</b>	<b>11.20%</b>	<b>10.18%</b>	<b>7.50%</b>	<b>13.12%</b>
<i>POLICY BENCHMARK</i>		<i>0.68%</i>	<i>2.47%</i>	<i>10.74%</i>	<i>10.00%</i>	<i>6.83%</i>	<i>11.47%</i>
Global Public Equity	\$8,843	0.34%	0.60%	16.64%	14.46%	8.45%	19.07%
Private Equity	\$2,815	2.80%	5.16%	15.21%	19.93%	13.73%	12.43%
Real Estate	\$1,082	2.60%	3.71%	14.65%	19.41%	14.12%	10.60%
Private Debt	\$1,698	1.57%	3.48%	11.88%	16.74%	10.01%	15.27%
GTAA	\$2,942	0.34%	2.40%	9.94%	5.41%	9.01%	12.26%
HF (Low Beta)	\$2,656	-0.52%	2.14%	9.81%			
Mixed Credit	\$2,169	0.34%	2.59%	7.87%	7.38%	5.85%	15.30%
Commodity	\$668	0.33%	0.60%	7.51%	-0.38%		
Global Fixed Income	\$1,067	0.26%	2.51%	5.14%	0.83%	4.47%	10.97%
Core Fixed Income	\$2,531	-0.38%	1.70%	2.27%	0.15%	4.08%	6.48%
EM Debt	\$1,168	2.18%	2.86%	2.65%	-4.08%	2.41%	
Short Duration	\$3,495	-0.05%	0.27%	1.31%	1.10%	1.76%	
Cash <sup>3</sup>	\$4,536	-0.07%	0.11%	0.38%	0.31%	0.69%	0.87%
<b>Net Overlay Financing<sup>4</sup></b>	<b>-\$6,656</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.1%</b>	<b>0.1%</b>	<b>0.1%</b>	<b>0.1%</b>

\*Highlighted categories include Overlay allocations.

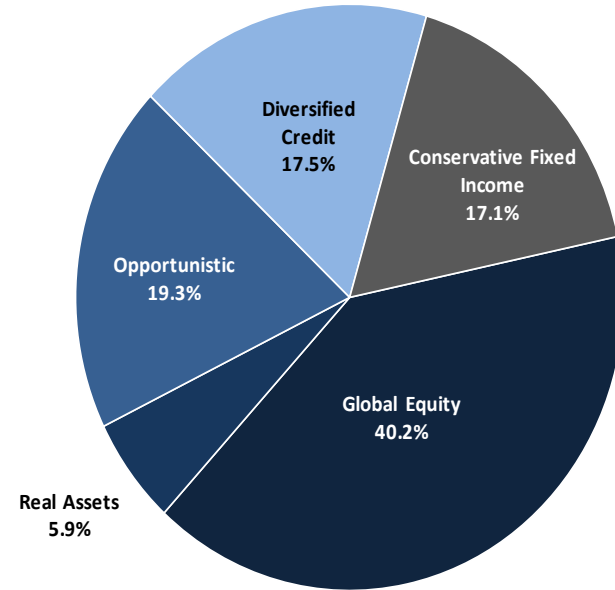




# Portfolio Exposure

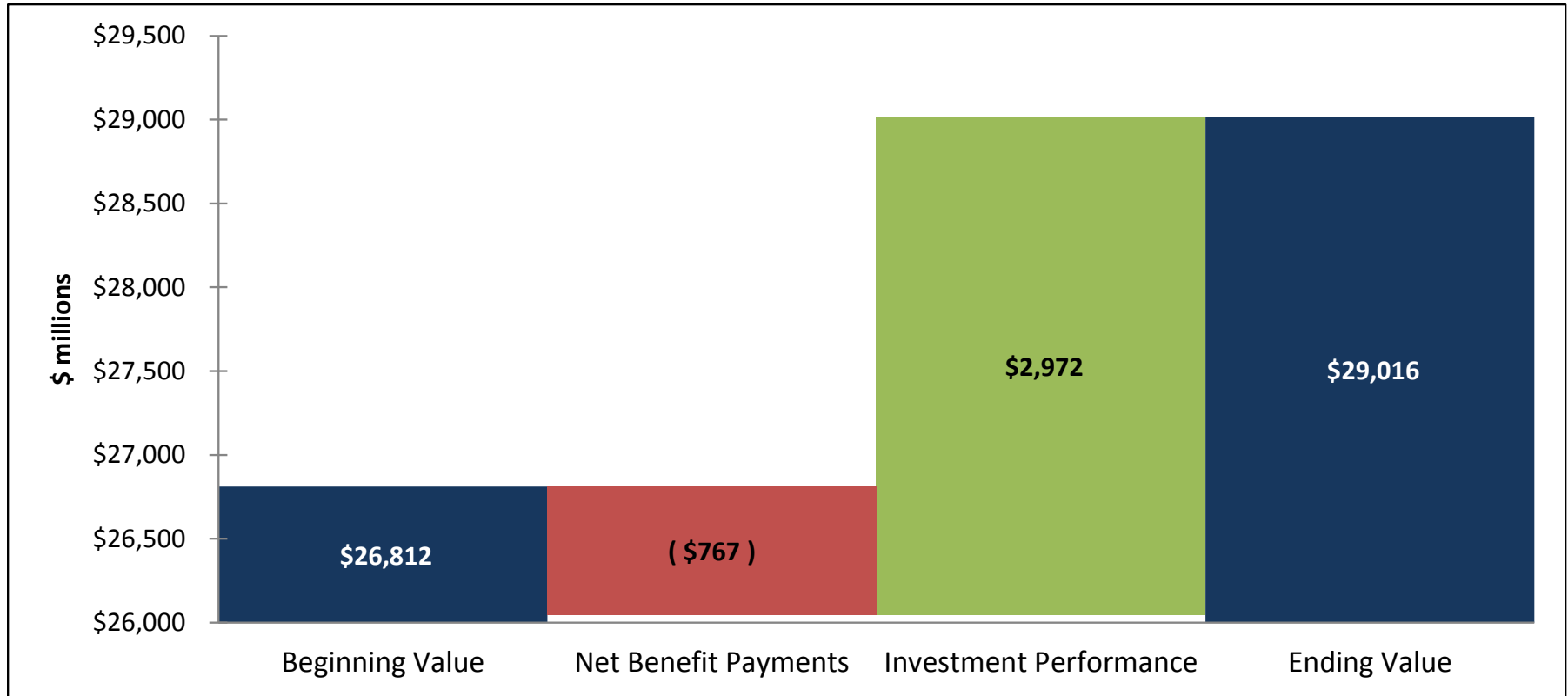
As of March 31, 2014

Estimated Allocation / Exposure	Portfolio Exposure	Target Allocation	Difference
<b>Global Equity</b>	<b>40.2%</b>	<b>40.0%</b>	<b>0.2%</b>
Global Public Equity	30.5%	31.0%	-0.5%
Private Equity	9.7%	9.0%	0.7%
<b>Real Assets</b>	<b>5.9%</b>	<b>8.0%</b>	<b>-2.1%</b>
Real Estate	3.7%	5.0%	-1.3%
Commodity	2.2%	3.0%	-0.8%
<b>Opportunistic</b>	<b>19.3%</b>	<b>18.0%</b>	<b>1.3%</b>
GTAA	10.1%	10.0%	0.1%
HF ( Low Beta)	9.2%	8.0%	1.2%
<b>Diversified Credit</b>	<b>17.5%</b>	<b>19.0%</b>	<b>-1.5%</b>
Mixed Credit	7.5%	6.0%	1.5%
Emerging Markets Debt	4.2%	6.0%	-1.8%
Private Debt	5.9%	7.0%	-1.1%
<b>Conservative Fixed Income</b>	<b>17.1%</b>	<b>15.0%</b>	<b>2.1%</b>
Core Fixed Income	8.7%	7.0%	1.7%
Global Fixed Income	3.7%	3.0%	0.7%
Cash and Short Duration (Net of Overlay)	4.7%	5.0%	-0.3%
Cash and Short Duration (Gross of Overlay)	27.7%		

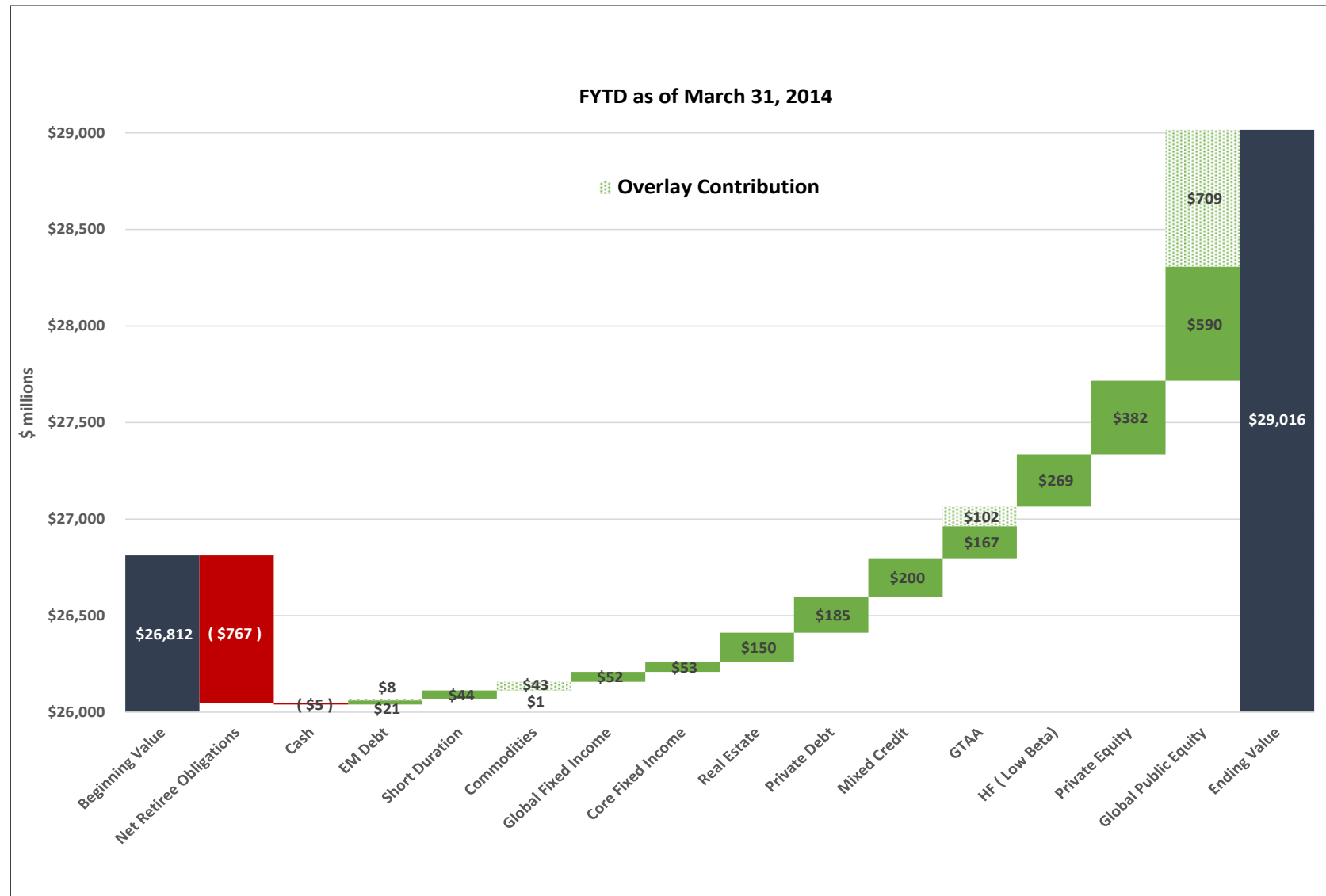


# Fiscal YTD Benefits & Performance

As of March 31, 2014

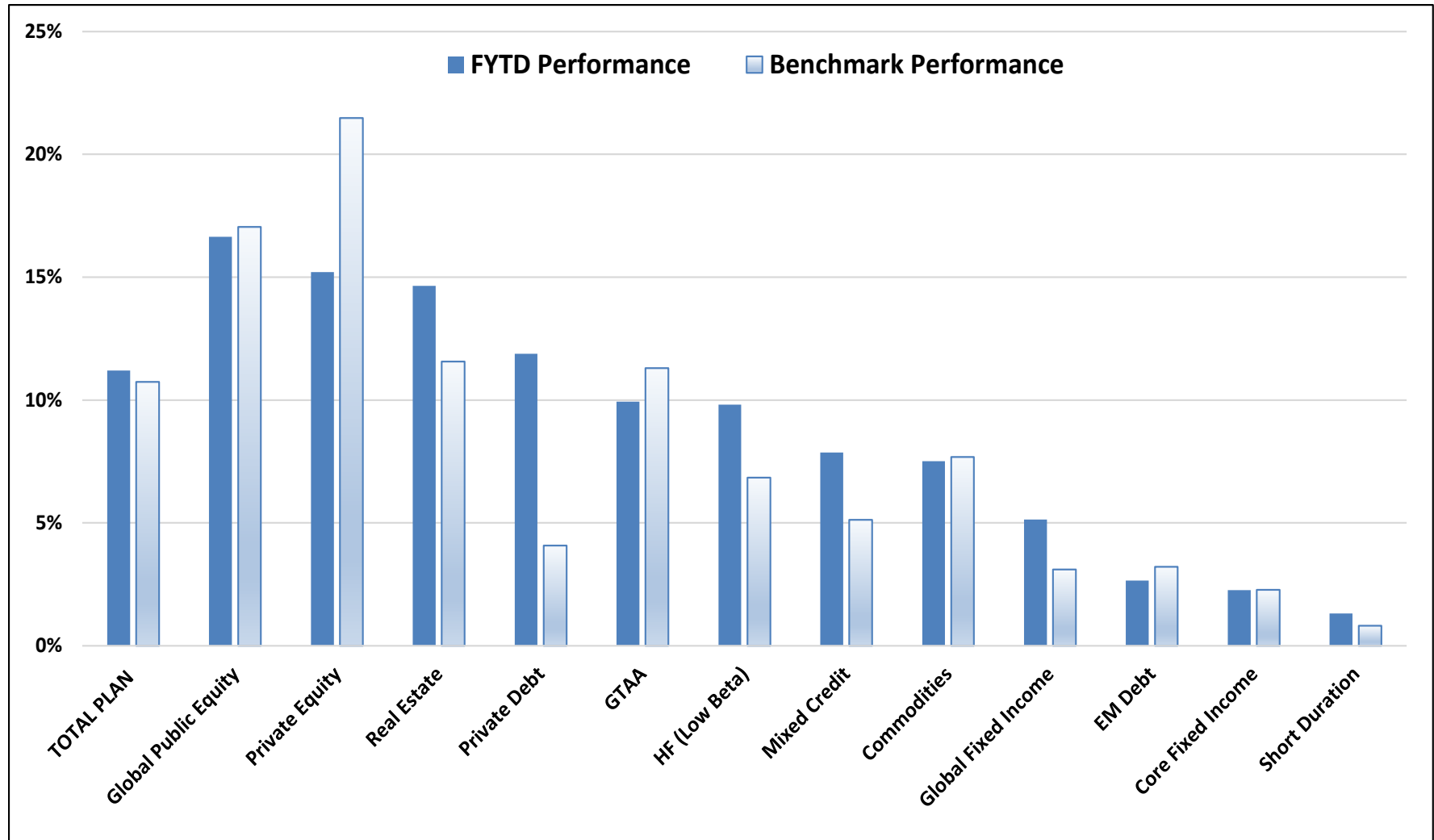


# Fiscal YTD Contribution by Asset Class



# Asset Class Performance vs Policy Benchmarks

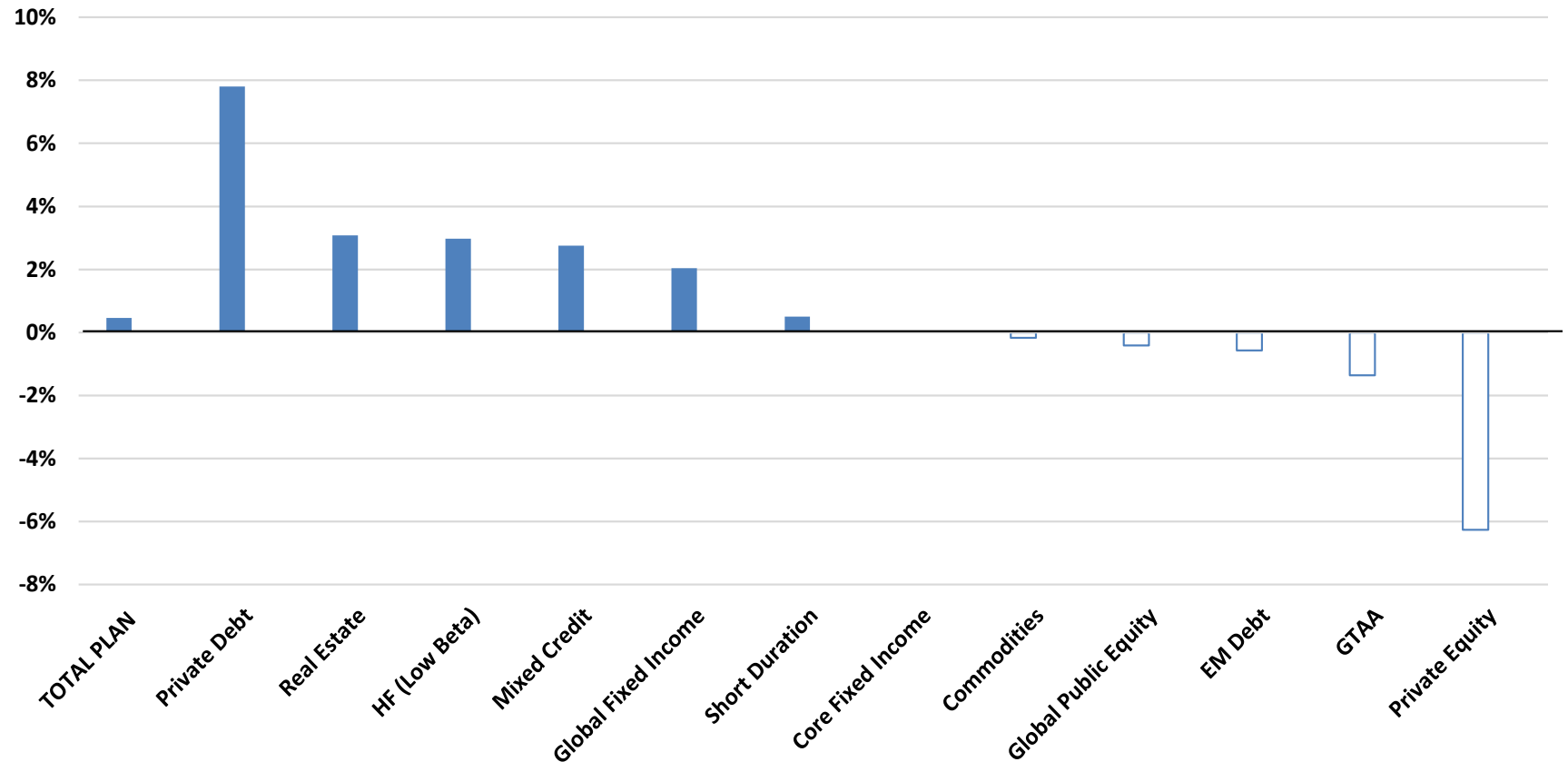
As of March 31, 2014



# Asset Class Performance vs Policy Benchmarks

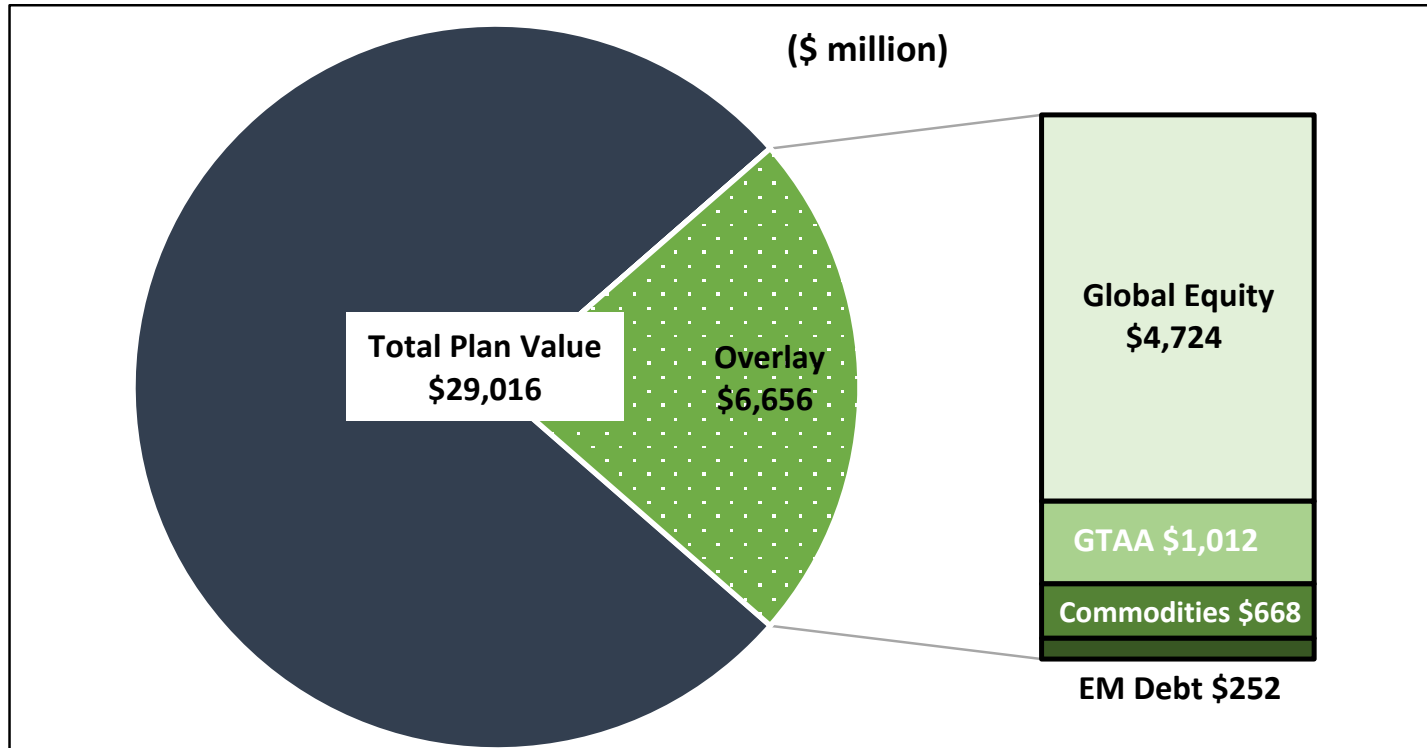
As of March 31, 2014

Relative Adjusted Performance [Actual - Benchmark]



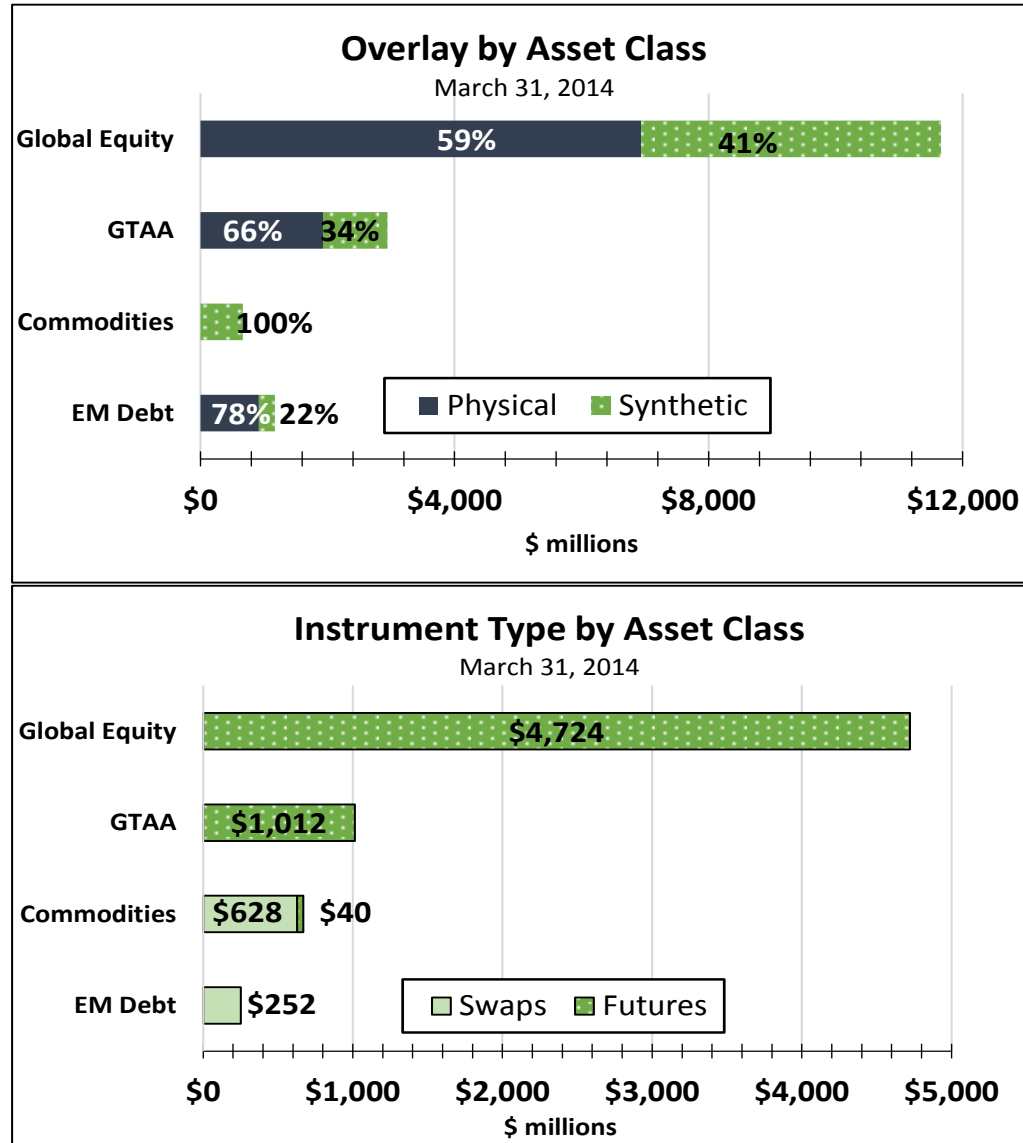
# Overlay Exposure by Asset Class

As of March 31, 2014



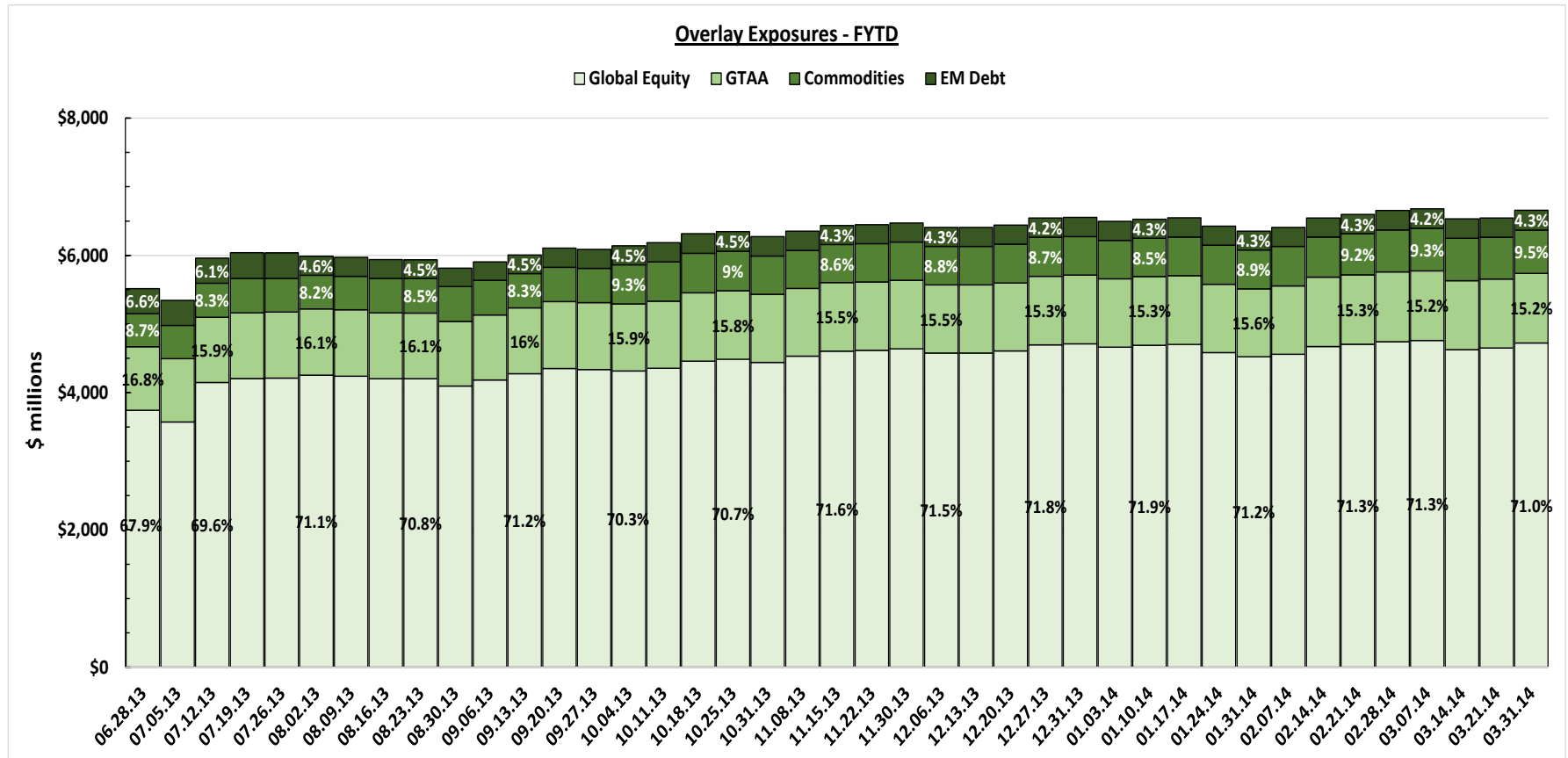
# Overlay Composition

As of March 31, 2014



# Weekly Change in Overlay Exposure

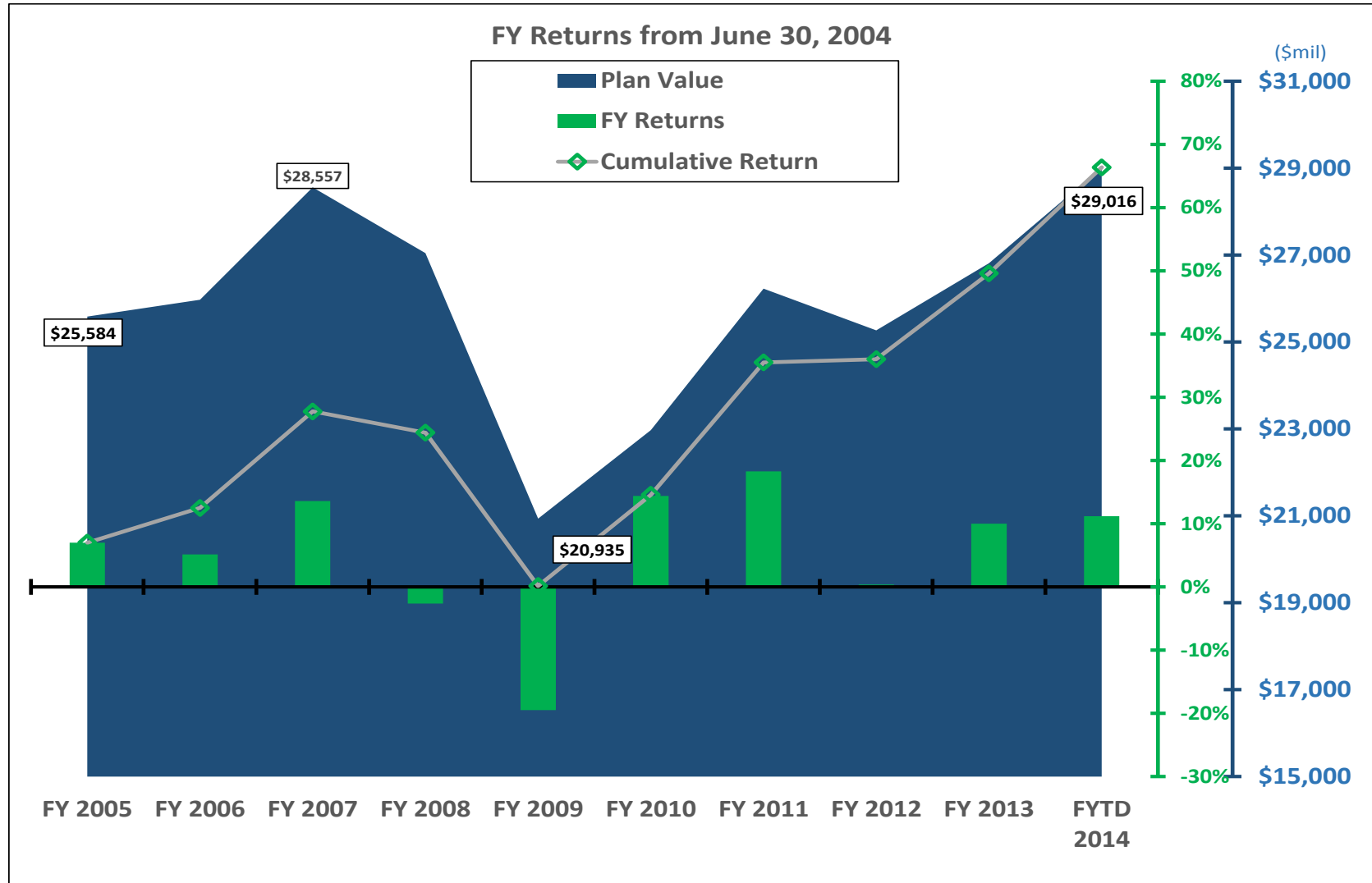
As of March 31, 2014





# Long Term Plan Performance (as Reported)<sup>1</sup>

As of March 31, 2014



# Performance Contribution – Public Markets<sup>5</sup>

## Ranking of Highest and Lowest Contributors

Account Name	FY Avg Mkt Value (\$mil)	FYTD Return	Average Weight	Est. FYTD Contribution	Account Name	FY Avg Mkt Value (\$mil)	FYTD Return	Average Weight	Est. FYTD Contribution
1 Russell Large Cap Transition	\$722	21.08%	2.59%	0.50%	1 SCRS EMD ETF	\$405	3.22%	1.45%	0.05%
2 Times Square Cap Mgmt	\$577	21.39%	2.07%	0.41%	2 Bridgewater - PAM	\$94	12.66%	0.34%	0.04%
3 GMO Multi-Strategy	\$925	10.69%	3.31%	0.35%	3 GSO - Mixed Credit HF	\$90	12.29%	0.32%	0.04%
4 Lighthouse - Low Beta HF	\$854	11.59%	3.06%	0.34%	4 Penn - High Yield	\$99	9.68%	0.35%	0.03%
5 Pyramis Global Advisors	\$454	22.57%	1.63%	0.34%	5 Jamison Eaton & Wood	\$222	3.84%	0.79%	0.03%
6 Bridgewater All Weather	\$935	8.42%	3.35%	0.29%	6 TCW - Mixed Credit	\$110	6.95%	0.39%	0.03%
7 Integrity	\$339	22.18%	1.22%	0.25%	7 Goldman Sachs - EMD	\$254	1.73%	0.91%	0.03%
8 LPE Earnest Partners	\$469	15.36%	1.68%	0.22%	8 Goldman Sachs - Low Beta HF	\$100	6.94%	0.36%	0.03%
9 Entrust - Low Beta HF	\$498	9.35%	1.79%	0.18%	9 Blackstone - Low Beta HF	\$142	4.80%	0.51%	0.02%
10 Grosvenor - Mixed Credit HF	\$435	11.65%	1.56%	0.18%	10 Aberdeen	\$225	2.79%	0.81%	0.02%
11 William Blair	\$292	9.22%	1.05%	0.13%	11 Mondrian Global	\$267	1.89%	0.96%	0.02%
12 Bridgewater - Pure Alpha	\$379	9.40%	1.36%	0.13%	12 GSO - Mixed Credit	\$159	1.88%	0.57%	0.01%
13 Morgan Stanley - Low Beta HF	\$199	15.58%	0.71%	0.11%	13 SCRS Fixed Inc.	\$161	2.96%	0.58%	0.01%
14 Blackrock Fixed Inc	\$1,035	2.57%	3.71%	0.10%	14 Mondrian EMD	\$232	0.59%	0.83%	0.01%
15 Loomis Sayles Global	\$336	7.92%	1.20%	0.10%	15 Reservoir Strat Prt	\$56	9.60%	0.20%	0.00%



# Performance Contribution – Public Markets<sup>5</sup>

## Largest Allocations (Greater than 1%)

Account Name	FY Avg Mkt Value (\$mil)	FYTD Return	Average Weight >1%	Est. FYTD Contribution
1 Pimco Fixed Income	\$1,052	1.75%	3.77%	0.06%
2 Blackrock Fixed Inc	\$1,035	2.57%	3.71%	0.10%
3 Bridgewater All Weather	\$935	8.42%	3.35%	0.29%
4 GMO Multi-Strategy	\$925	10.69%	3.31%	0.35%
5 Lighthouse - Low Beta HF	\$854	11.59%	3.06%	0.34%
6 Russell Large Cap Transition	\$722	21.08%	2.59%	0.50%
7 Times Square Cap Mgmt	\$577	21.39%	2.07%	0.41%
8 Entrust - Low Beta HF	\$498	9.35%	1.79%	0.18%
9 LPE Earnest Partners	\$469	15.36%	1.68%	0.22%
10 Pyramis Global Advisors	\$454	22.57%	1.63%	0.34%
11 Wamco Global	\$437	5.04%	1.57%	0.08%
12 Grosvenor - Mixed Credit HF	\$435	11.65%	1.56%	0.18%
13 SCRS EMD ETF	\$405	3.22%	1.45%	0.05%
14 Bridgewater - Pure Alpha	\$379	9.40%	1.36%	0.13%
15 Loomis Sayles L/S	\$346	6.42%	1.24%	0.09%
16 Integrity	\$339	22.18%	1.22%	0.25%
17 Loomis Sayles Global	\$336	7.92%	1.20%	0.10%
18 De Shaw - Hedge Fund	\$311	7.56%	1.11%	0.09%
19 Lighthouse - Mixed Credit HF	\$293	9.30%	1.05%	0.10%
20 William Blair	\$292	9.22%	1.05%	0.13%
21 Lighthouse - Global Equity HF	\$282	8.37%	1.01%	0.10%

# Performance Contribution – Private Markets<sup>5,6</sup>

## Ranking of Highest and Lowest Contributors

Account Name	3YR Avg Mkt Value (\$mil)	3YR Return	Average Weight	Est. 3YR Contribution	Account Name	3YR Avg Mkt Value (\$mil)	3YR Return	Average Weight	Est. 3YR Contribution
1 Morgan Stanley - Private Equity	\$359	11.93%	1.29%	0.49%	1 Bridgepoint Europe	\$47	12.88%	0.18%	0.08%
2 Goldman Sachs - Private Debt	\$432	9.66%	1.55%	0.47%	2 Neuberger Berman	\$33	22.18%	0.12%	0.07%
3 Apollo - Private Equity	\$228	19.41%	0.82%	0.37%	3 Lexington Partners VII	\$49	13.40%	0.19%	0.07%
4 Goldman Sachs - Private Equity	\$126	21.74%	0.45%	0.31%	4 Welsh Carson	\$33	20.19%	0.13%	0.07%
5 Apollo - Private Debt	\$173	18.20%	0.62%	0.25%	5 Pantheon Europe	\$51	10.75%	0.19%	0.07%
6 Clayton Dubilier	\$72	25.11%	0.26%	0.23%	6 Sankaty	\$123	4.18%	0.47%	0.06%
7 TCW - Private Debt	\$175	8.25%	0.63%	0.17%	7 WL Ross - Whole Loans	\$57	9.95%	0.22%	0.06%
8 Crestview	\$75	22.04%	0.27%	0.17%	8 Paul Capital	\$47	10.13%	0.18%	0.05%
9 Pantheon USA VII	\$89	14.30%	0.32%	0.16%	9 Truebridge Fund	\$36	10.90%	0.14%	0.05%
10 Morgan Stanley - Real Estate	\$100	13.21%	0.36%	0.15%	10 Venture Investment	\$33	11.29%	0.13%	0.04%
11 Warburg Pincus PE	\$90	13.34%	0.32%	0.13%	11 Avenue Capital US	\$92	0.30%	0.35%	0.03%
12 Aquiline Financial	\$104	7.76%	0.37%	0.12%	12 Square 1 Ventures	\$33	10.77%	0.13%	0.03%
13 De Shaw Opportunistic	\$101	8.00%	0.36%	0.11%	13 Apax Partners	\$42	3.97%	0.16%	0.02%
14 Industry Ventures	\$34	27.24%	0.12%	0.10%	14 Aquiline II Sidecar	\$110	-13.36%	0.42%	-0.06%
15 Torchlight Capital	\$82	8.09%	0.30%	0.10%					



# Performance Contribution – Private Markets<sup>5,6</sup>

## Largest Allocations (Top 20 by % allocation)

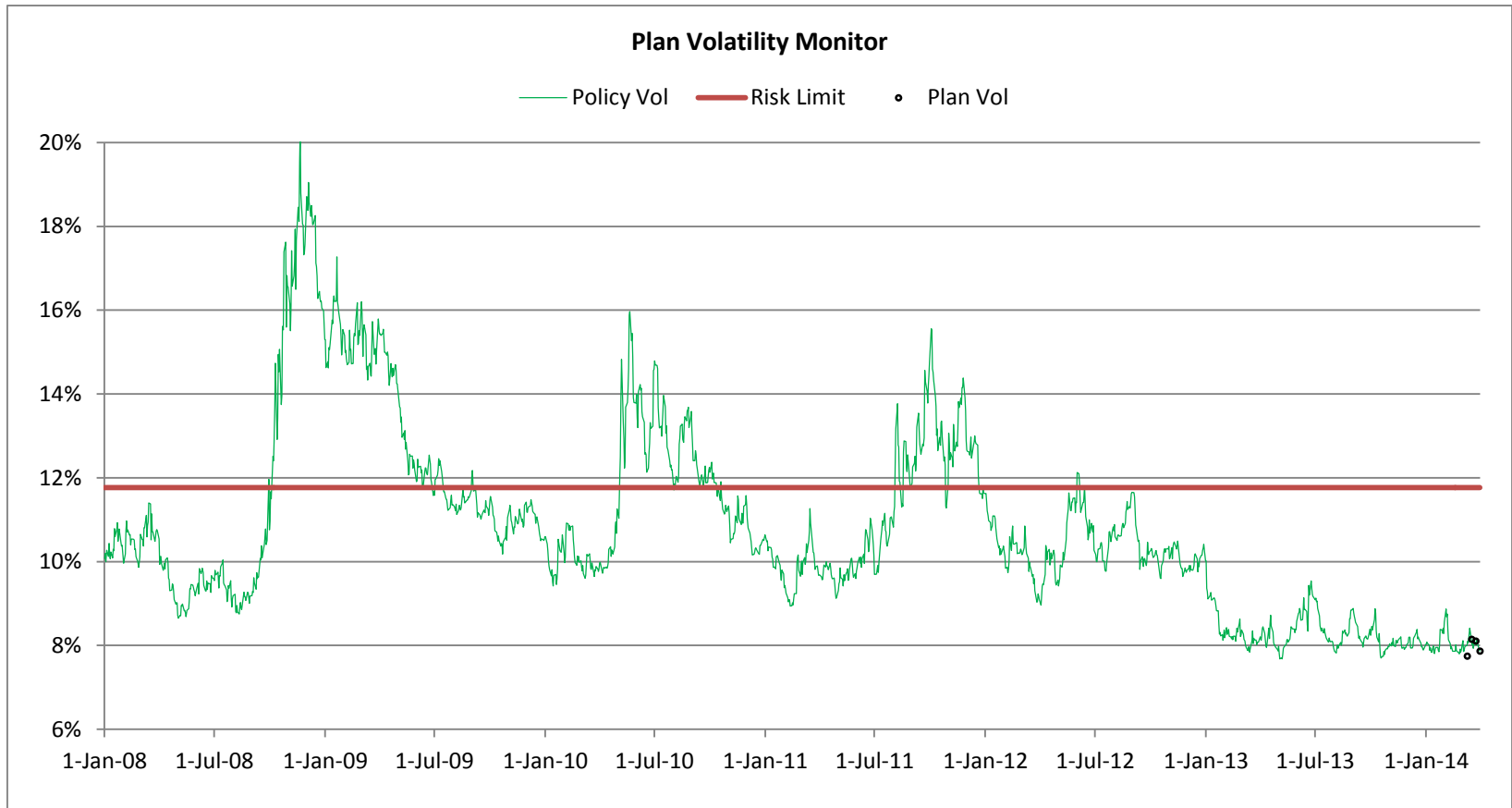
Account Name	3YR Avg Mkt Value (\$mil)	3YR Return	Average Weight	Est. 3YR Contribution
1 Goldman Sachs - Private Debt	\$432	9.66%	1.64%	0.47%
2 Morgan Stanley - Private Equity	\$359	11.93%	1.36%	0.49%
3 Apollo - Private Equity	\$228	19.41%	0.87%	0.37%
4 TCW - Private Debt	\$175	8.25%	0.66%	0.17%
5 Apollo - Private Debt	\$173	18.20%	0.66%	0.25%
6 Goldman Sachs - Private Equity	\$126	21.74%	0.48%	0.31%
7 Sankaty	\$123	4.18%	0.47%	0.06%
8 Aquiline II Sidecar	\$110	-13.36%	0.42%	-0.06%
9 Aquiline Financial	\$104	7.76%	0.39%	0.12%
10 De Shaw Opportunistic	\$101	8.00%	0.38%	0.11%
11 Morgan Stanley - Real Estate	\$100	13.21%	0.38%	0.15%
12 Avenue Capital US	\$92	0.30%	0.35%	0.03%
13 Warburg Pincus PE	\$90	13.34%	0.34%	0.13%
14 Pantheon USA VII	\$89	14.30%	0.34%	0.16%
15 Torchlight Capital	\$82	8.09%	0.31%	0.10%
16 Crestview	\$75	22.04%	0.28%	0.17%
17 Clayton Dubilier	\$72	25.11%	0.27%	0.23%
18 WL Ross - Whole Loans	\$57	9.95%	0.22%	0.06%
19 Pantheon Europe	\$51	10.75%	0.19%	0.07%
20 Lexington Partners VII	\$49	13.40%	0.19%	0.07%



# RSIC Risk Monitor

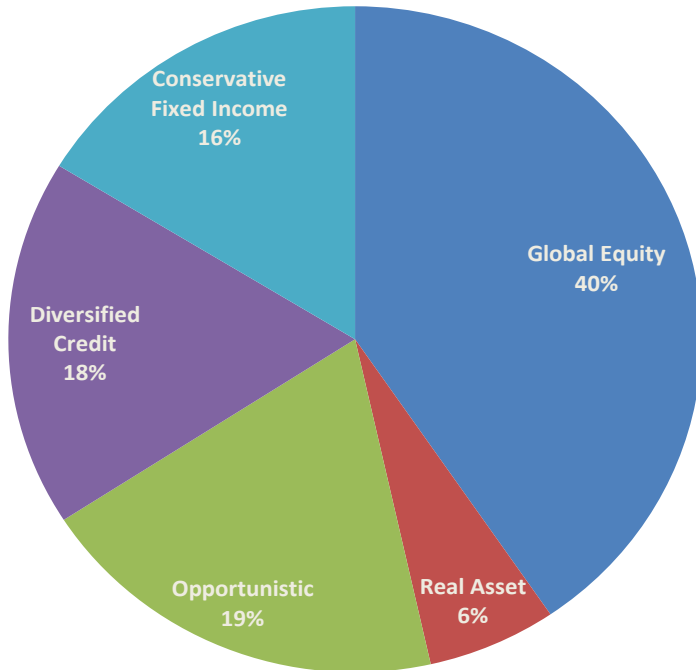
## Risk Monitor 03/31/2014

	NAV	E[R]	\$ E[R]	Volatility	\$ Volatility	TE	\$ TE
Plan (Real Time Estimate)	\$28,880.1	6.90%	\$1,992.0	7.87%	\$2,271.6	0.29%	\$83.3
Policy (10 Year Assumptions)		6.57%	\$1,896.9	10.57%	\$3,051.7		

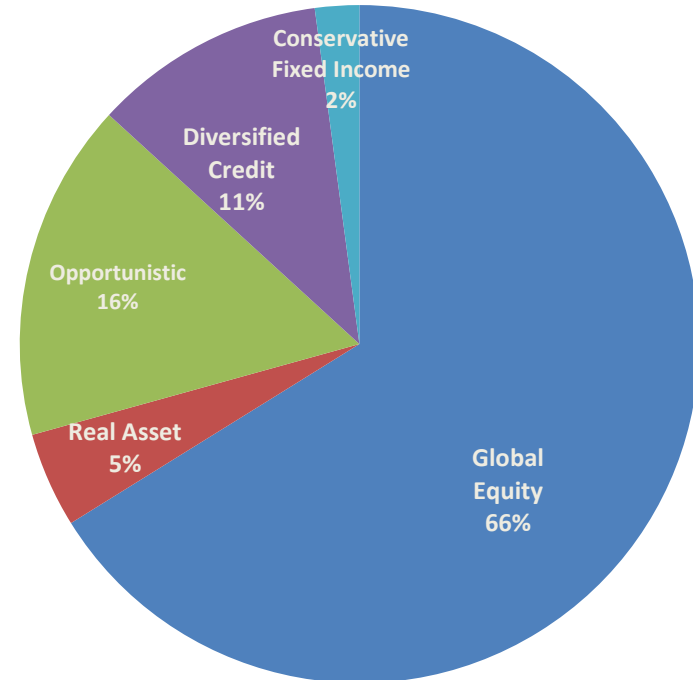


# RSIC Risk Allocation

**Capital Allocation**

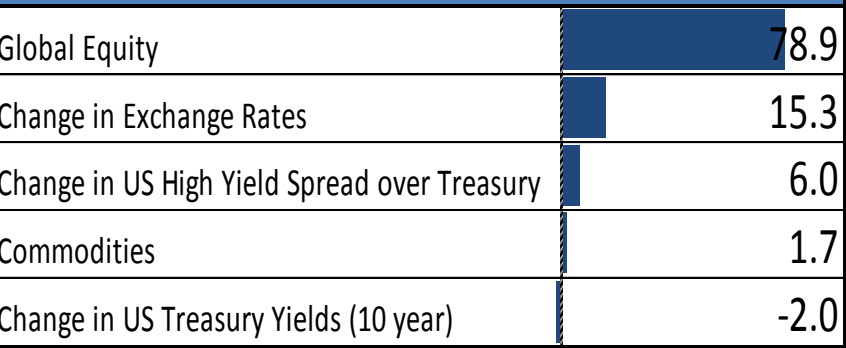


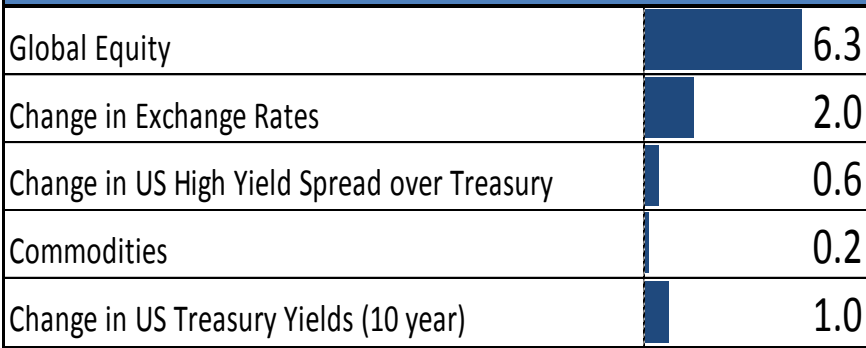
**Risk Allocation**



# Goldman Sachs Risk Report

- Factor-based risk decomposition
- Equity Risk continues to be predominant risk factor

Total Risk Decomposition - Factors (%)	
Global Equity	78.9
Change in Exchange Rates	15.3
Change in US High Yield Spread over Treasury	6.0
Commodities	1.7
Change in US Treasury Yields (10 year)	-2.0
	
Sum to 100%	

Total Risk Attribution - Factors (%)	
Global Equity	6.3
Change in Exchange Rates	2.0
Change in US High Yield Spread over Treasury	0.6
Commodities	0.2
Change in US Treasury Yields (10 year)	1.0
Diversification Benefit	-2.6
	
Sum to Factor-Based Volatility (8.7%)	



# Goldman Sachs Risk Report

- Return per unit of risk deteriorated in 1Q with market weakness and resulting (temporary) spikes in volatility
- Decreased risk exposures to interest rates and spreads

## Volatility, Returns & Sharpe Ratios: 1Y Trailing

Qtr Ending	Return	Volatility	Sharpe
12/31/2012	12.58%	5.2%	2.38
3/31/2013	9.87%	4.5%	2.14
6/30/2013	10.17%	3.8%	2.62
9/30/2013	11.94%	4.7%	2.12
12/31/2013	11.32%	4.8%	2.41
3/31/2014	10.33%	5.3%	1.92

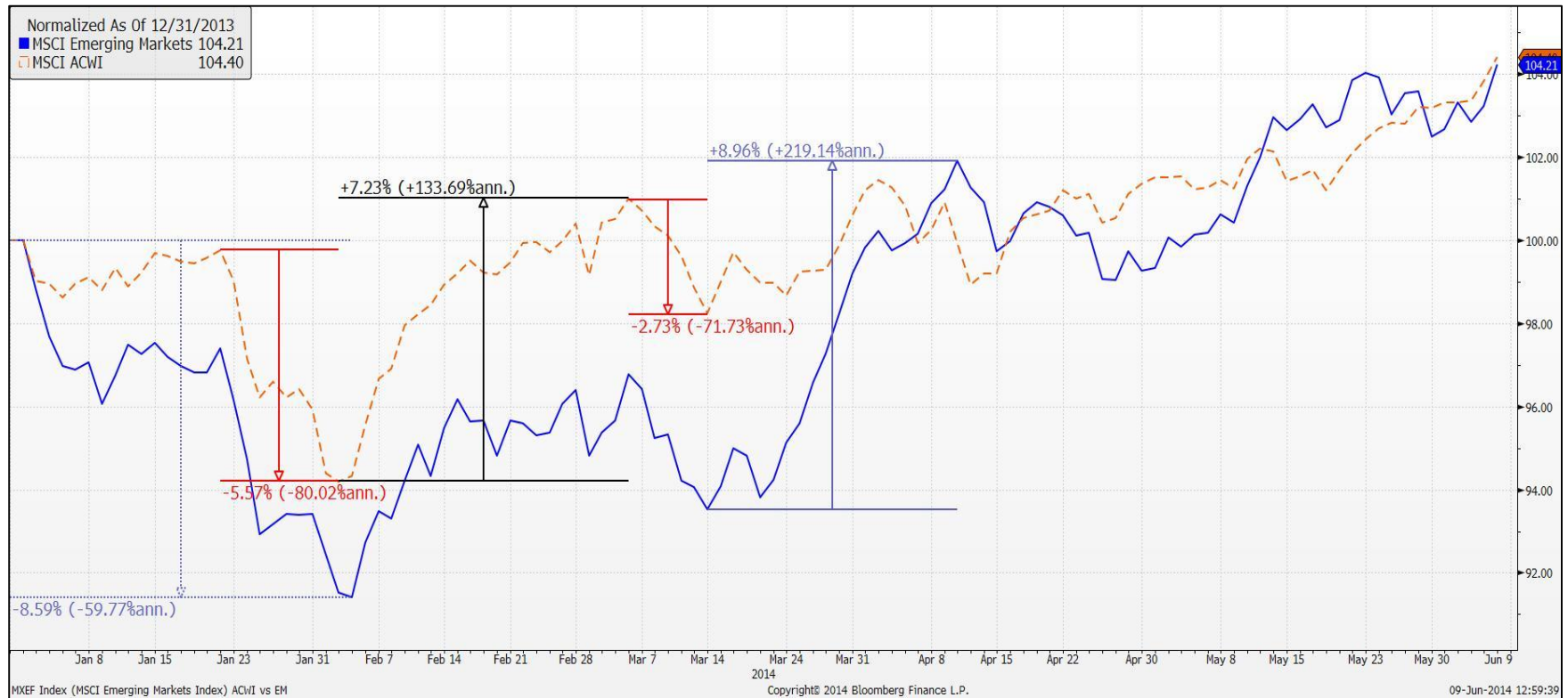
## Portfolio Factor Betas

Date	Gbl Equity Excess Returns	Chg in HY Spreads	Cmnty Excess Returns	Chg in 10Y Treas Ylds	Chg in Exch Rates
9/30/2013	0.45	-0.64	0.02	-1.48	-0.26
12/31/2013	0.46	-0.23	0.01	-1.07	-0.29
3/31/2014	0.45	-0.21	0.01	-1.08	-0.29



# YTD Equity Markets

- Volatility during 1Q'2014 impacting most recent Sharpe Ratio observation



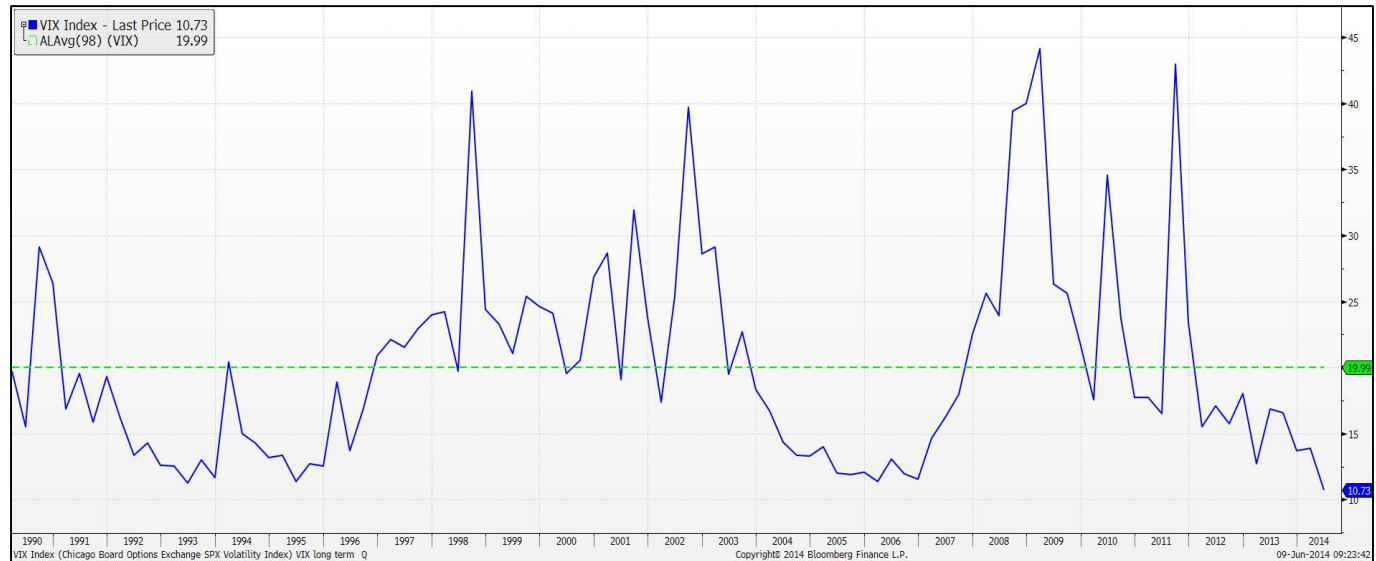
# Market Observations

- **Low equity volatility**

## VIX

Current: 10.7

Average: 19.9

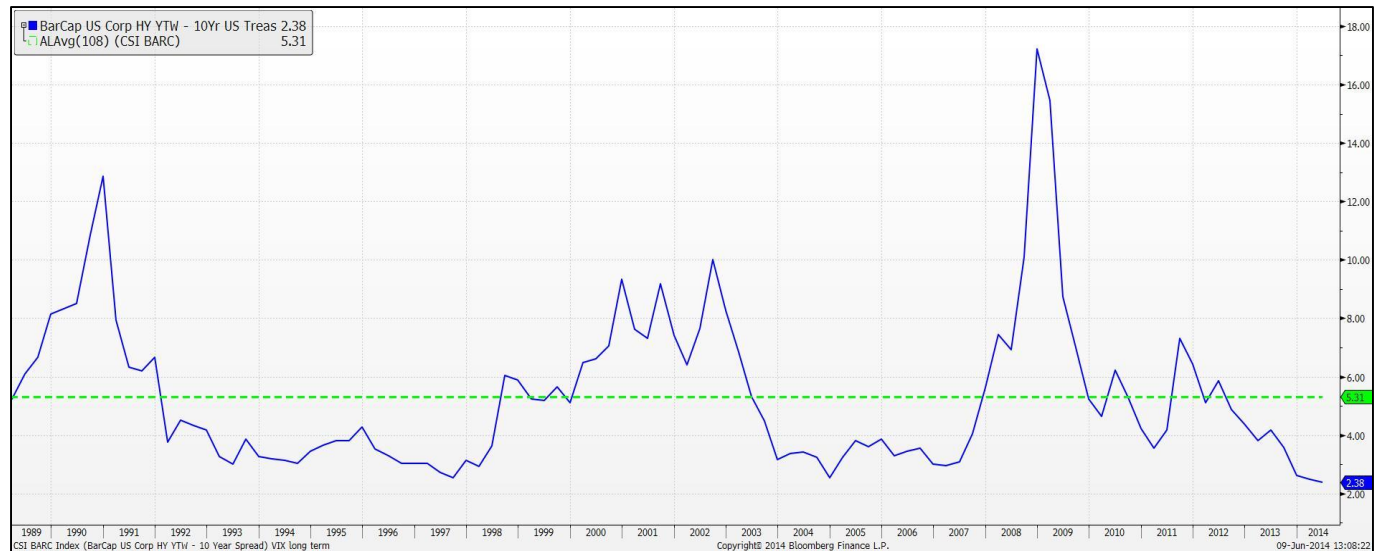


- **Low premium for credit risk**

## HY Credit Risk Prem.

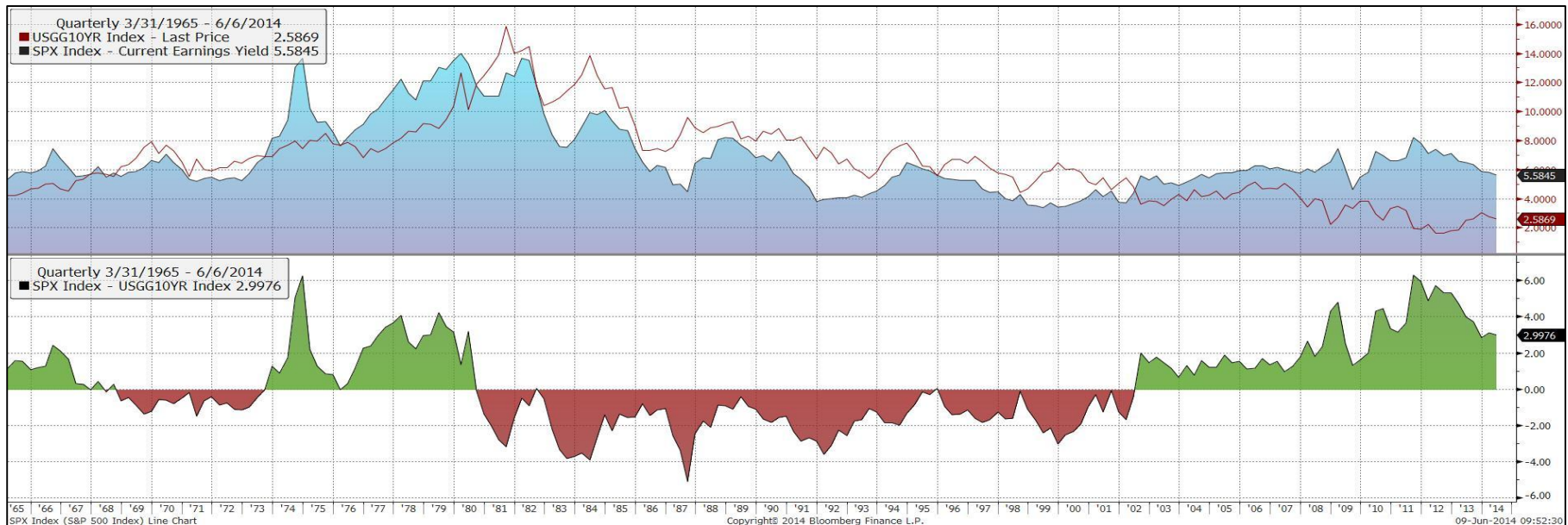
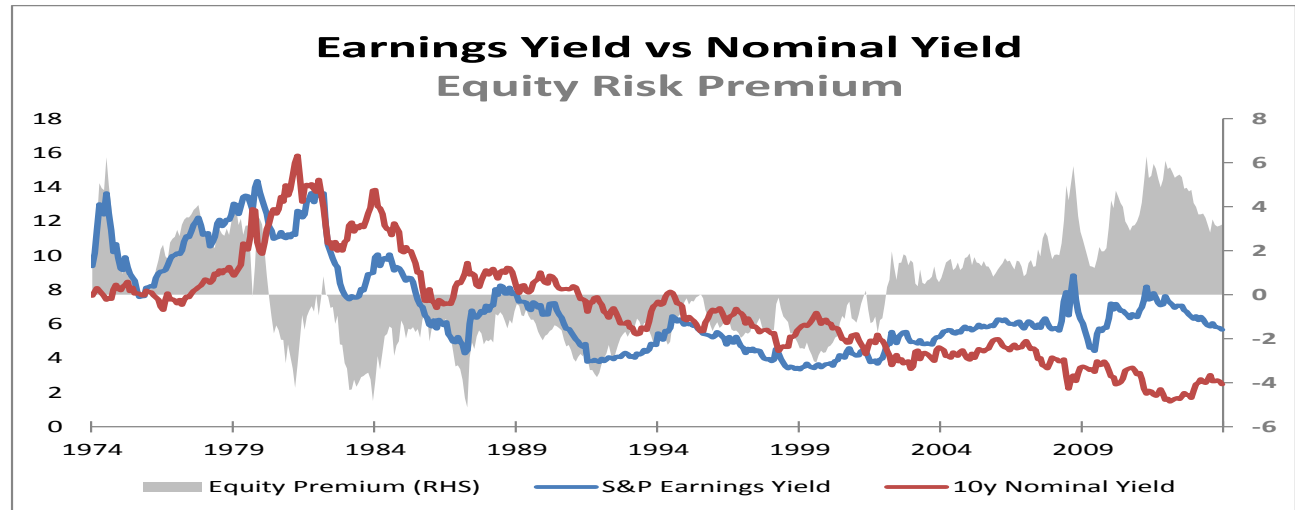
Current: 2.4%

Average: 5.3%



# Market Observations

- Equity Risk Premium is relatively and historically attractive



# Footnotes and Disclosures

## Footnotes

1. Source (“as Reported”): BNY Mellon. Cash performance includes the impact of administrative fees and expenses for Strategic Partnerships.
2. Benefit payments are net of Plan contributions and disbursements.
3. “Cash” market value is the aggregate cash held at the custodian, Russell Investments, and strategic partnerships. Cash performance is estimated using the Merrill Lynch 3-Month T-Bill rate.
4. Overlay financing is calculated as: [Total Margin Earnings – Total Overlay Cost = Net Overlay Financing]
5. Performance Contribution methodology: Excludes cash & short duration accounts, accounts not active for the entire FYTD period, accounts with average FY market value less than \$29 million, and accounts with market value less than \$29 million as of 03/31/14. Returns are net of fees and expenses.
6. Performance Contribution - Private Markets: Presentation is based on time-weighted performance calculations over a short period. Both the contribution method and the performance period should be aligned with portfolio expectations relative to any private market asset class.

## Disclosures

- Market values are presented in millions of USD except as otherwise indicated.
- Supplemental performance perspectives are based on RSIC internal analysis except as otherwise indicated. Estimated contributions to return over multiple reporting periods are calculated as [beginning value \* periodic return] except as otherwise indicated. Internal estimates utilize inputs from BNY Mellon and Russell Investments.
- Returns are provided by BNY Mellon and are time-weighted, total return calculations. Net of fee performance is calculated and presented after the deduction of management fees and trading expenses. Periods greater than one year are annualized. Past performance is no guarantee of future results.
- Overlay allocation detail is provided by Russell Investments.







# **Retirement System Investment Commission**

## **First Quarter 2014 Investment Performance Review June 2014**

Brady O'Connell, CFA , CAIA – Partner

## Market and Performance Highlights

- As 2014 began, harsh winter conditions in the U.S. resulted in disappointing economic employment and manufacturing data releases. Equities were volatile during the quarter, suffering in January (while longer-dated investment grade bonds rallied) before a sharp rebound during February recovered ground lost early in the quarter.
- Emerging market equities once again lagged developed markets, posting a modest decline for the three-month period.
- The Total Plan gained 2.2% during the first quarter but lagged its benchmark by 0.3 percentage points
  - Primary contributors to the Plan's relative performance during 1Q included the following:
    - Investments in Low Beta Hedge Funds and Private Debt
    - An underweight allocation to Cash and Short Duration
    - An overweight allocation to Private Equity (which outperformed the Plan's Policy Index)
  - Primary detractors from relative performance during the quarter included the following:
    - Global Public Equity and Private Equity
    - An underweight allocation to Commodities (which outperformed the Plan's Policy Index)
    - An overweight allocation to Core Fixed Income (which underperformed the Plan's Policy Index)
- The Plan's long-term performance has been favorable. Over the trailing five-year period ending 3/31/14, the Total Plan has outperformed its Policy Index while exhibiting a comparable level of volatility. Additionally, the Plan's trailing five-year return of 13.1% exceeded its 7.5% actuarial assumed rate of return.
- At the end of the quarter, the Plan's asset allocation was in compliance with long-term targets and the allowable ranges stipulated in its Statement of Investment Objectives and Policies (SIOP).
- At quarter-end, the Plan's total hedge fund exposure was 14.0%, below the long-term targeted maximum allocation of 15% stipulated in the SIOP.

## Returns of the Major Capital Markets – Periods Ending 3/31/14

	First Quarter	Fiscal YTD	1-Year	3-Year <sup>1</sup>	5-Year <sup>1</sup>
<b>Equity</b>					
MSCI All Country World	1.1	17.1	16.6	8.6	17.8
S&P 500	1.8	18.4	21.9	14.7	21.2
Russell 2000	1.1	21.2	24.9	13.2	24.3
MSCI EAFE	0.7	18.7	17.6	7.2	16.0
MSCI Emerging Markets	-0.4	7.2	-1.4	-2.9	14.5
<b>Fixed Income</b>					
Barclays Global Aggregate (Hedged)	2.0	3.1	1.3	4.4	4.5
Barclays 1-3 Year Government/Credit	0.2	0.8	0.7	1.2	2.0
Barclays Aggregate	1.8	2.3	-0.1	3.7	4.8
Barclays High Yield	3.0	9.1	7.5	9.0	18.2
JPM EMBI Global Diversified	3.7	6.6	0.6	7.1	11.7
JPM GBI-EM Global Diversified	1.9	-0.1	-7.1	1.1	9.8
<b>Commodities</b>					
Dow Jones-UBS Commodity	7.0	8.1	-2.1	-7.4	4.2
<b>Hedge Funds</b>					
HFRI Fund-Weighted Composite <sup>2</sup>	1.1	6.8	6.5	3.0	7.9
<b>Real Estate</b>					
NCREIF ODCE + 75 bps	3.2	11.4	14.3	13.0	6.3
<b>Private Equity</b>					
Thomson Reuters VentureXpert <sup>3</sup>	4.9	13.2	16.9	14.4	10.0

MSCI Indices and NCREIF ODCE show net returns. All other indices show total returns.

<sup>1</sup> Periods are annualized

<sup>2</sup> Latest 5 months of HFR data are estimated by HFR and may change in the future.

<sup>3</sup> Benchmark as of 9/30/13



## SIOP Section II C - Manager Updates

- **Integrity:** In April, Munder Capital Management (Munder) announced that the firm and its subsidiary, Integrity Asset Management, agreed to be acquired by Victory Capital Management. The deal is expected to close in the third quarter of 2014. We anticipate that the boutique team structure that was developed at Munder will remain intact under the new structure. At this point, we have not made any revisions to the ratings for the Integrity portfolio.
- **Post:** HEK recently changed its overall advisory position on Post Advisory Group (Post) to a “**Sell**” from a “**Hold**” due to a series of developments that raises serious questions regarding the viability of the organization as a going concern. More specifically, the firm has lost over \$1 billion in assets as of our most recent point of contact. They have lost a number of key investors, including the recent and abrupt departure of Jeremy Sagi (the portfolio manager on the Limited Term High Yield strategy, where they have seen the bulk of their assets leave). We have recommended clients identify a replacement for Post, either through a search for a new manager or by transitioning to an existing manager in which there is a greater degree of confidence.
- **Western:** In late May we learned that two members of Western’s mortgage team recently tendered their resignation from the firm. In addition, there have been three other departures including an insurance portfolio manager, a municipal bond analyst and a high yield analyst based in London.
  - HEK changed its ratings on the majority of Western’s fixed income products including the Global Multi-Sector Full Discretion product, from “**Hold**” to “**Sell**” in September 2013 due to significant turnover within the mortgage team and concerns about the organizational leadership. These recent developments do not change our current advisory position on Western.

\* The SIOP Section II C addresses the adoption of a Service Provider Selection Policy to govern the selection, monitoring, and reporting of RSIC’s service providers. All service providers are subject to regular and appropriate monitoring throughout the term of the engagement.

## SIOP Section III B - Asset Allocation at 3/31/14

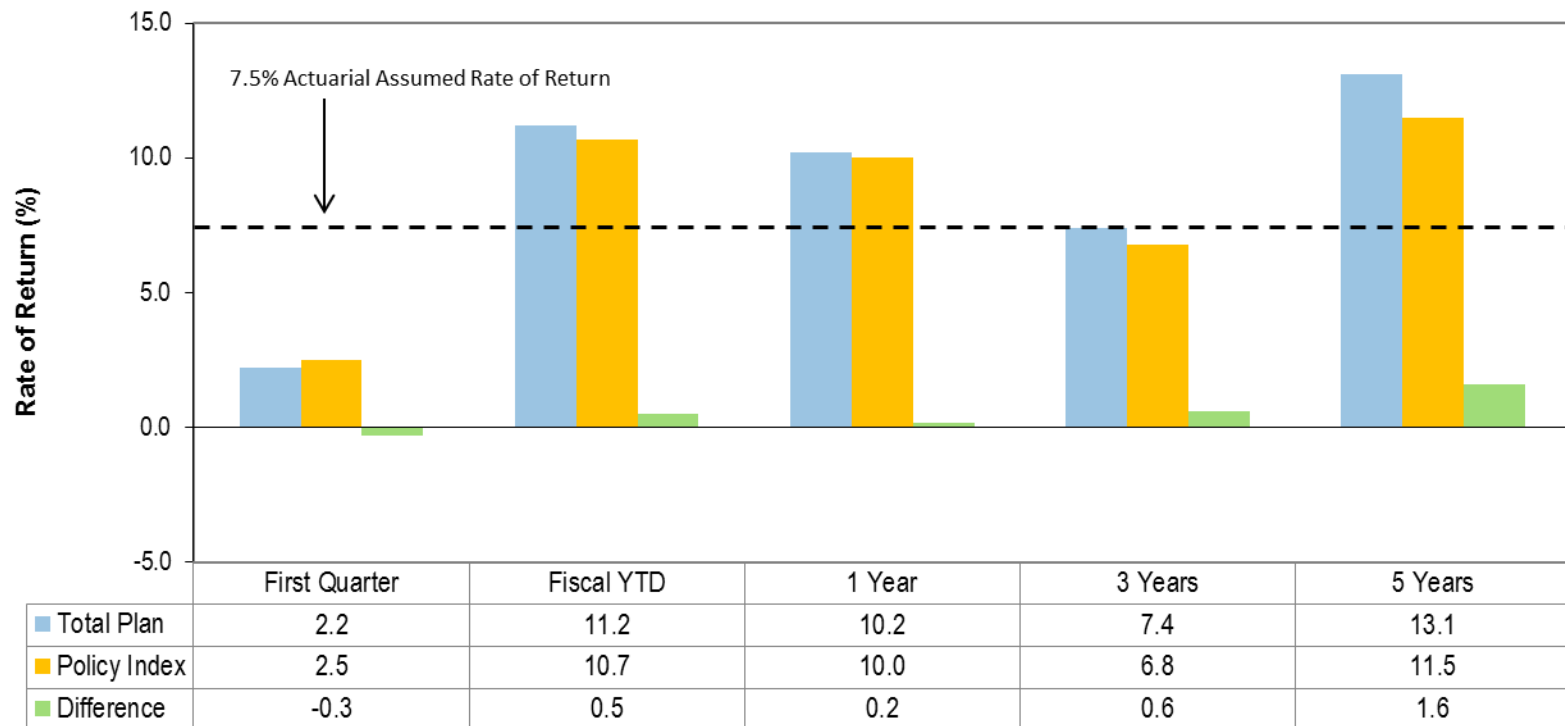
	MV at 3/31/14	Overlay Exposures	Net Position	% of Total Plan	Policy Targets	Difference	Allowable Ranges	SIOP Compliance?
<b>Total Fund</b>	<b>\$29,016,077,190</b>	<b>\$0</b>	<b>\$29,016,077,190</b>	<b>100.0%</b>	<b>100.0%</b>	<b>0.0%</b>	<b>-</b>	<b>-</b>
<b>Global Equity</b>	<b>\$6,934,709,978</b>	<b>\$4,723,641,266</b>	<b>\$11,658,351,243</b>	<b>40.2%</b>	<b>40.0%</b>	<b>0.2%</b>		
Public Equities	\$4,119,721,018	\$4,723,641,266	\$8,843,362,283	30.5%	31.0%	-0.5%	25-37%	Yes
Private Equity	\$2,814,988,960	\$0	\$2,814,988,960	9.7%	9.0%	0.7%	6-12%	Yes
<b>Conservative Fixed Income</b>	<b>\$11,629,762,155</b>	<b>(\$6,655,993,451)</b>	<b>\$4,973,768,704</b>	<b>17.1%</b>	<b>15.0%</b>	<b>2.1%</b>		
Core Fixed Income	\$2,531,033,369	\$0	\$2,531,033,369	8.7%	7.0%	1.7%	4-10%	Yes
Global Fixed Income	\$1,067,472,046	\$0	\$1,067,472,046	3.7%	3.0%	0.7%	0-6%	Yes
Cash and Short Duration	\$8,031,256,739	(\$6,655,993,451)	\$1,375,263,289	4.7%	5.0%	-0.3%	0-6%	Yes
<b>Diversified Credit</b>	<b>\$4,783,614,420</b>	<b>\$287,925,508</b>	<b>\$5,071,539,928</b>	<b>17.5%</b>	<b>19.0%</b>	<b>-1.5%</b>		
Mixed Credit	\$2,168,921,174	\$0	\$2,168,921,174	7.5%	6.0%	1.5%	3-9%	Yes
Emerging Markets Debt	\$916,381,867	\$287,925,508	\$1,204,307,375	4.2%	6.0%	-1.8%	3-9%	Yes
Private Debt	\$1,698,311,379	\$0	\$1,698,311,379	5.9%	7.0%	-1.1%	4-10%	Yes
<b>Opportunistic</b>	<b>\$4,585,974,446</b>	<b>\$1,012,421,521</b>	<b>\$5,598,395,966</b>	<b>19.3%</b>	<b>18.0%</b>	<b>1.3%</b>		
Low Beta Hedge Funds	\$2,656,367,497	\$0	\$2,656,367,497	9.2%	8.0%	1.2%	5-11%	Yes
GTAA/Risk Parity	\$1,929,606,948	\$1,012,421,521	\$2,942,028,469	10.1%	10.0%	0.1%	7-13%	Yes
<b>Real Assets</b>	<b>\$1,082,016,192</b>	<b>\$632,005,157</b>	<b>\$1,714,021,348</b>	<b>5.9%</b>	<b>8.0%</b>	<b>-2.1%</b>		
Commodities	\$0	\$632,005,157	\$632,005,157	2.2%	3.0%	-0.8%	0-6%	Yes
Real Estate	\$1,082,016,192	\$0	\$1,082,016,192	3.7%	5.0%	-1.3%	2-8%	Yes

**Notes:** Total Plan allocations are based on values obtained from BNYM and adjusted for overlay exposures based on information provided by Russell. Total hedge fund exposure as a % of Total Plan at 3/31/14 was 14.0% and was comprised as follows: 0.3% global equity hedge funds, 4.6% mixed credit hedge funds, and 9.2% low beta hedge funds.

\* The SIOP Section III B provides the authorized Policy Asset Allocation including target allocations and ranges for each asset class based on the Commission's determination of the appropriate risk tolerance for the Portfolio and its long-term return expectations.

## SIOP Section III-A-1) - Total Plan – Trailing Period Performance as of 3/31/14

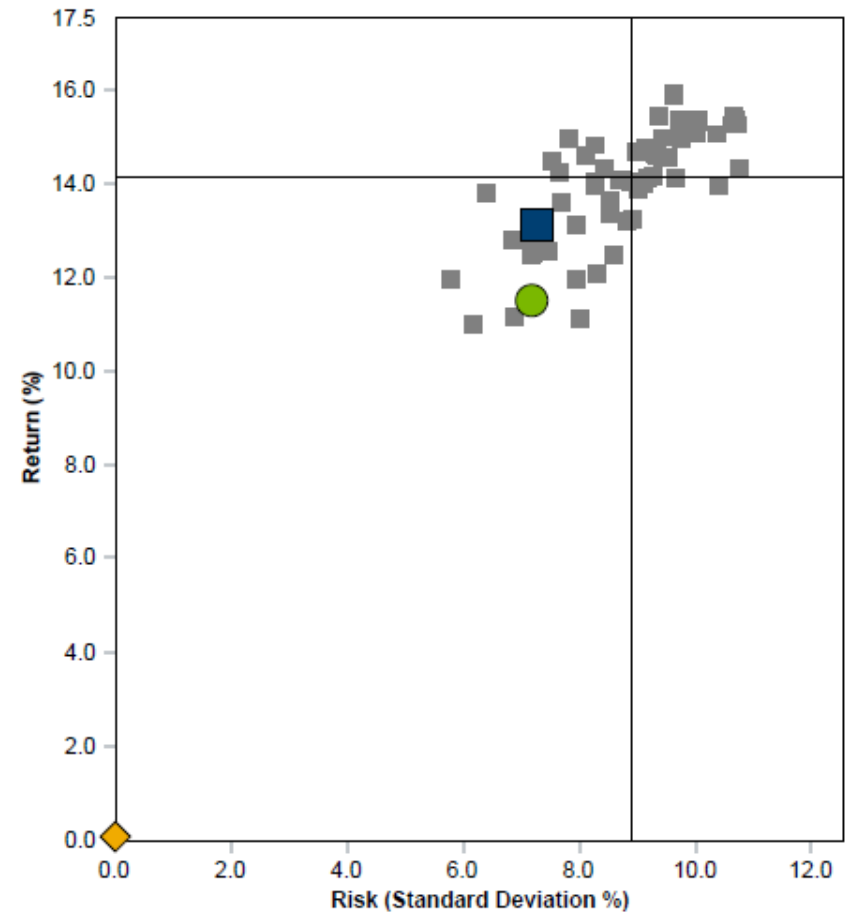
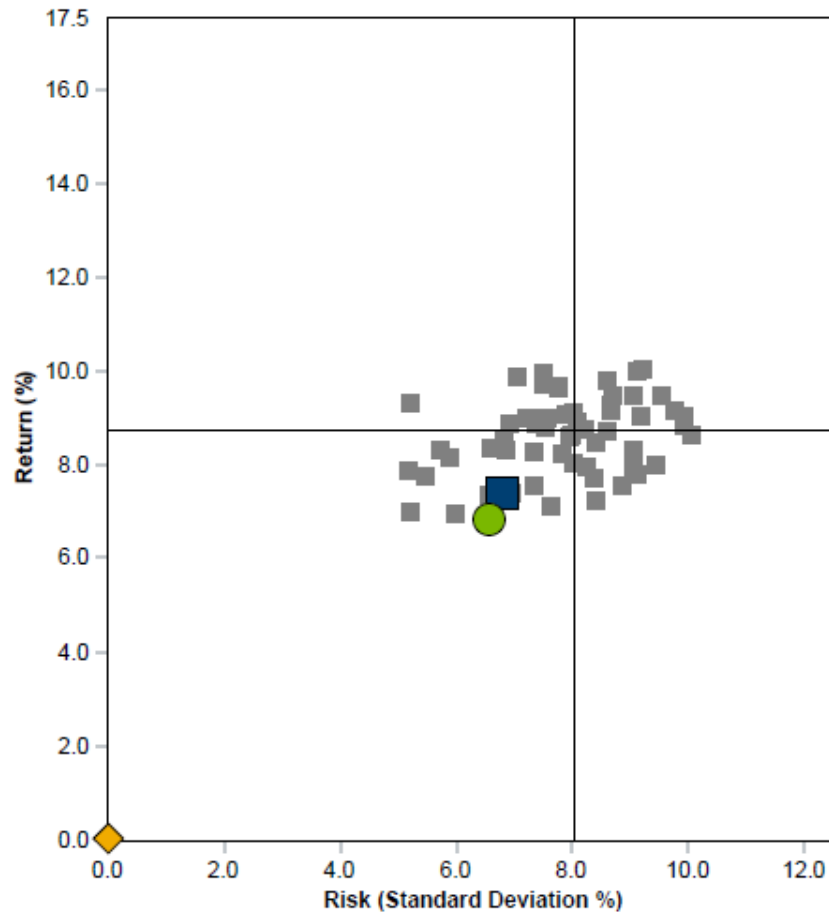
- Performance over the longer periods shown below has either closely approximated or exceeded the assumed return, achieving the primary investment objective laid out in Section III.A.1 of the SIOP.



\* The SIOP Section III-A-1 Investment Objective states “A diversified portfolio that achieves a rate of return greater than the actuarially assumed rate of return”

# SIOP Section III-A-2) Total Plan Risk-Return – Trailing 3- and 5-Year Periods Ending 3/31/14

All Public Plans > \$1B-Total Fund vs. 90 Day U.S. Treasury Bill

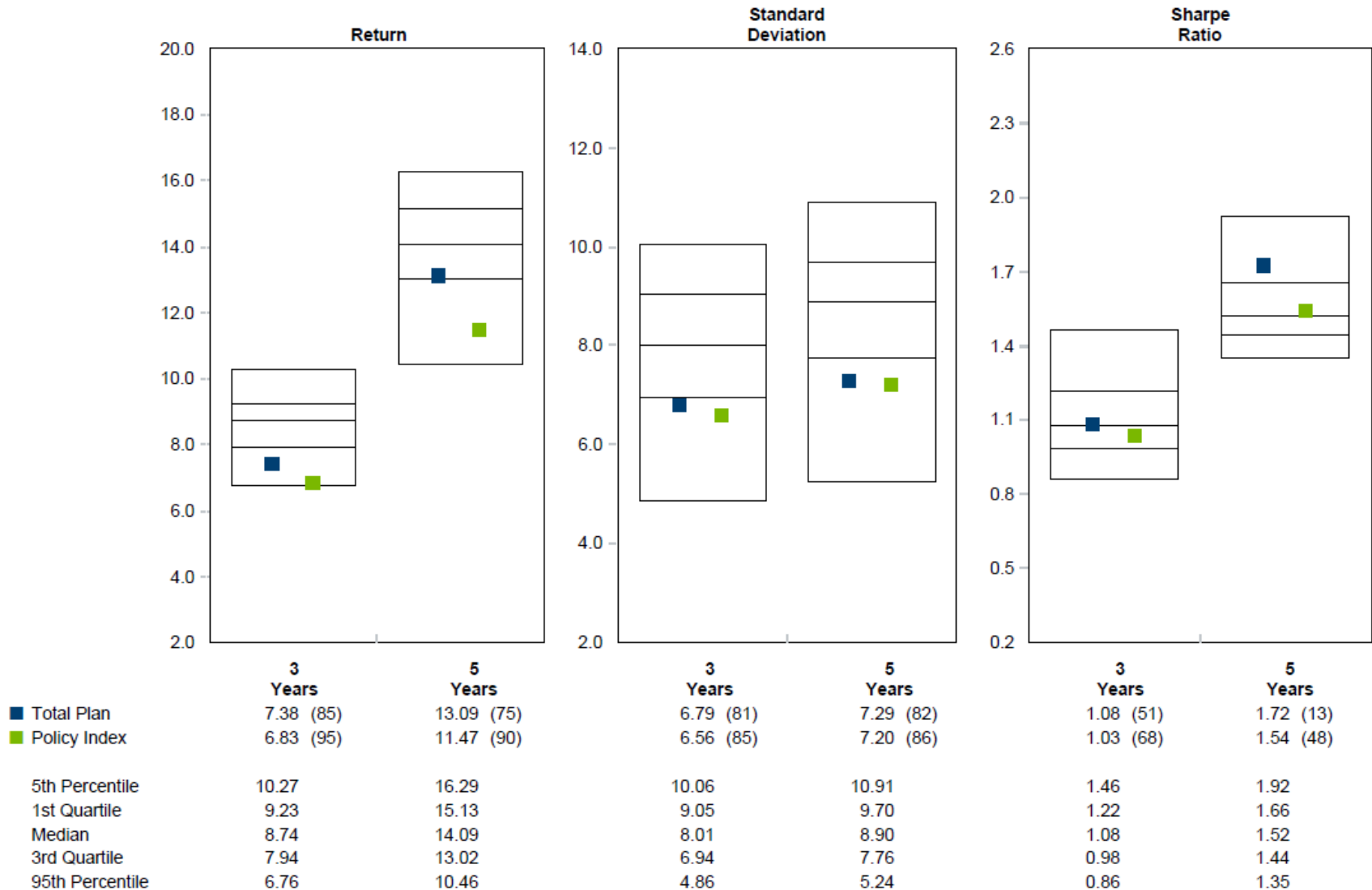


Based on a universe of public funds with market values greater than \$1 billion, compiled by BNYM and Investment Metrics.

\* The SIOP Section III-A-2 Investment Objective states "A rate of return greater than the of the Policy Asset Allocation return while maintaining a similar risk profile"

# SIOP Section III-A-2) Total Plan Risk Profile – Trailing 3- and 5-Year Periods Ending 3/31/14

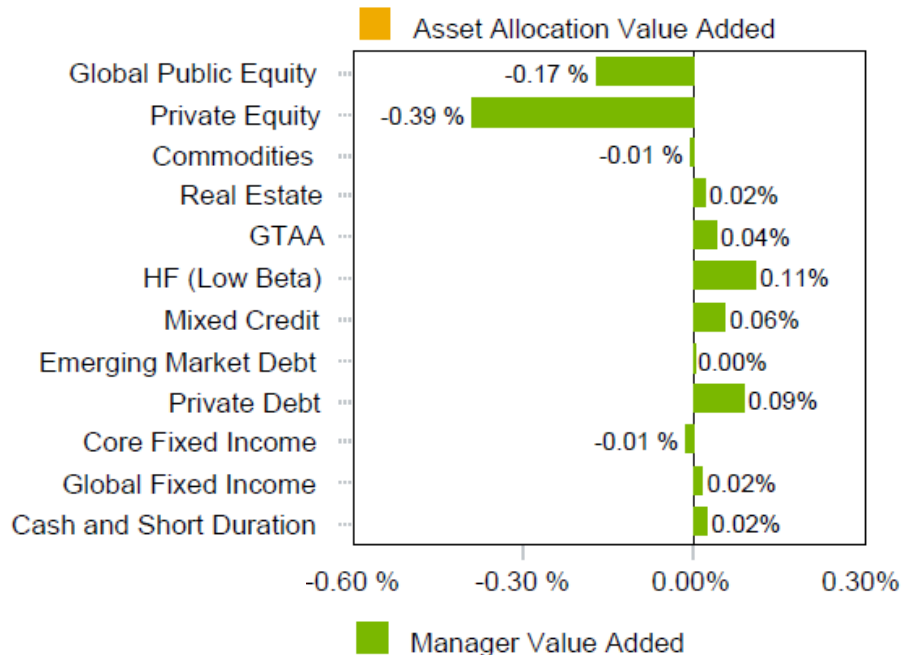
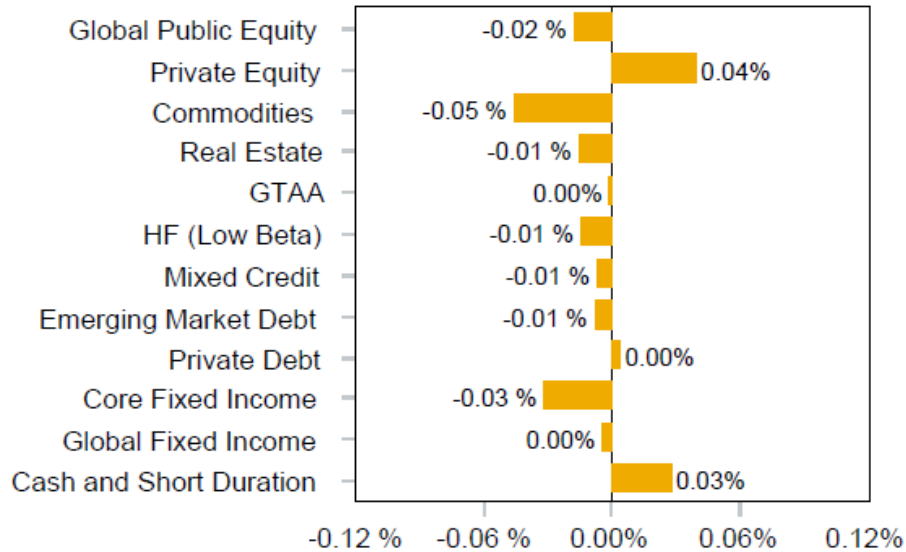
All Public Plans > \$1B-Total Fund vs. 90 Day U.S. Treasury Bill



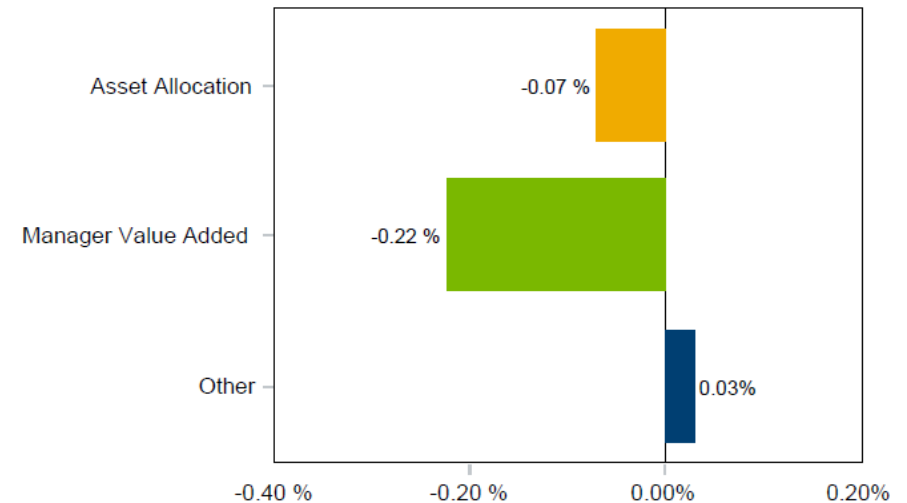
Based on a universe of public funds with market values greater than \$1 billion, compiled by BNYM and Investment Metrics.

\* The SIOP Section III-A-2 Investment Objective states "A rate of return greater than the of the Policy Asset Allocation return while maintaining a similar risk profile"

## Total Fund Performance Attribution – First Quarter 2014



**Total Value Added: -0.26 %**



**Note:** "Other" captures the impact of timing of cash flows within and between asset classes

# SIOP Section III-A-3) - Total Plan – Major Composite Performance at 3/31/14

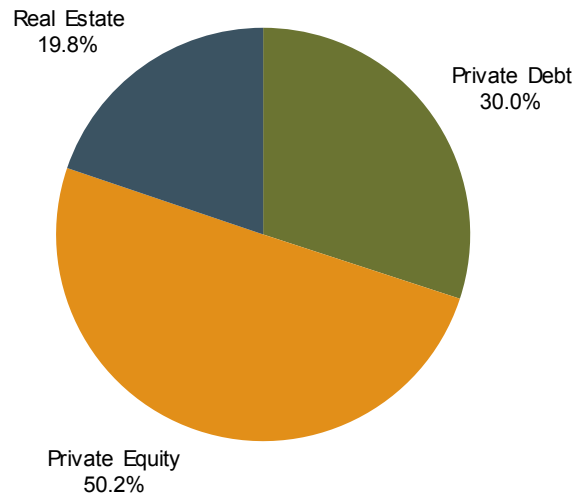
	Performance(%)				
	1 Quarter	Fiscal YTD	1 Year	3 Years	5 Years
Total Plan	2.21	11.19	10.19	7.38	13.09
Policy Index	2.47	10.72	9.98	6.83	11.47
Global Public Equities	0.32	15.36	11.84	5.69	18.84
MSCI AC World Index (Net)	1.08	17.05	16.55	8.55	17.80
Private Equity	5.16	15.24	19.96	13.73	12.44
Custom Benchmark - PE (BNY Calc)	9.28	21.20	33.77	17.59	20.70
Core Fixed Income	1.70	2.27	-0.45	4.08	6.02
Barclays Aggregate Index	1.84	2.28	-0.10	3.75	4.80
Global Fixed Income	2.51	5.13	0.82	4.46	10.97
Barclays Global Aggregate (Hedged)	2.04	3.10	1.32	4.39	4.53
Short-Duration	0.28	1.34	1.14	1.77	
Barclays 1-3yr Gov/Credit Index	0.23	0.81	0.68	1.18	
Cash and Overlay	-0.06	29.24	21.38	3.48	11.09
Citigroup 3 Month T-Bill	0.00	0.01	0.04	0.06	0.08
Mixed Credit	2.62	7.92	7.43	5.86	15.31
Custom Benchmark - Mixed Credit	1.92	5.14	4.02	5.61	11.38
Emerging Markets Debt	2.74	2.10	-4.71	2.90	
Custom Benchmark - EMD	2.84	3.22	-3.31	6.01	
Private Debt	3.48	11.89	16.74	10.01	15.28
Custom Benchmark - Private Debt	1.91	4.09	2.99	5.26	11.16
Low Beta Hedge Funds	2.14	9.78			
HFRI Fund Weighted Composite Index	1.07	6.87			
GTAA/Risk Parity	2.80	9.34	4.37	8.65	11.89
Custom Benchmark - GTAA Risk Parity	2.01	11.30	10.02	6.24	11.15
Real Estate	3.71	14.68	18.14	11.60	9.09
NCREIF ODCE Index + 75bps	3.24	11.43	14.29	13.02	6.31

\* The SIOP Section III-A-3 Investment Objective states “A rate of return for each asset class greater than its benchmark return with a prudent level of risk”

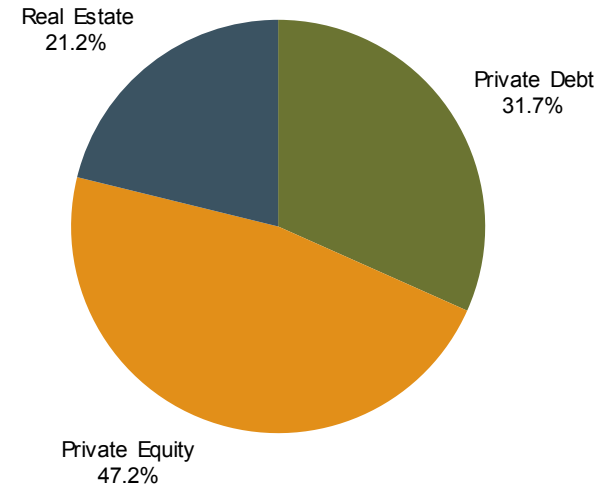
# Private Markets Portfolio Performance – Inception Through 12/31/13

Portfolio	Commitments	Unfunded Commitments <sup>1</sup>	Total Contributions	Total Distributions	Net Asset Value	Total Value <sup>2</sup>	Potential Market Exposure <sup>3</sup>	DPI <sup>4</sup>	RVPI <sup>5</sup>	TVPI <sup>6</sup>	Net IRR
Private Debt	\$3,943,942,606	\$808,555,710	\$3,553,068,037	\$2,922,220,186	\$1,724,625,230	\$4,646,845,416	\$2,533,166,969	0.82x	0.49x	1.31x	11.78%
Private Equity	3,455,965,947	889,880,995	2,732,653,481	986,242,425	2,881,158,760	3,867,401,185	3,771,039,755	0.36x	1.05x	1.42x	13.61%
Real Estate	1,847,034,978	555,857,840	1,402,678,855	546,142,758	1,136,480,944	1,682,623,702	1,692,338,784	0.39x	0.81x	1.20x	9.77%
<b>Total Private Markets</b>	<b>\$9,246,943,531</b>	<b>\$2,254,294,546</b>	<b>\$7,688,400,373</b>	<b>\$4,454,605,369</b>	<b>\$5,742,264,934</b>	<b>\$10,196,870,302</b>	<b>\$7,996,545,509</b>	<b>0.58x</b>	<b>0.75x</b>	<b>1.33x</b>	<b>12.24%</b>

**Diversification by Net Asset Value**



**Diversification by Potential Market Exposure<sup>3</sup>**



1. Unfunded Commitments include recallable distributions.

2. Total Value = Total Distributions + Net Asset Value

3. Potential Market Exposure is calculated as Net Asset Value + Unfunded Commitments. This is intended to show what the exposure would be to any given investment or strategy if all unfunded commitments were called by the investment managers prior to making any distributions.

4. DPI = Total Distributions / Total Contributions

5. RVPI = Net Asset Value / Total Contributions

6. TVPI = Total Value / Total Contributions



## Notes and Disclaimers

- SCRS assets are held both "in and out of bank". "Out of bank" assets are not in the custody of BNY Mellon or the STO. Consolidating is an accommodation by BNY Mellon and the STO and thus cannot be relied upon as representations of BNY Mellon or the STO.
- All rates of return are net of fees. Total Plan returns for periods starting 7/1/12 and thereafter have been calculated by HEK based on market values and transaction information obtained from the Plan's custodian, BNY Mellon. Returns for periods prior to 7/1/12 were provided by the Plan's previous consultant, NEPC. Returns for asset class composites created at 7/1/13 have been calculated by HEK for those periods subsequent to 7/1/13 and were provided by BNYM for periods prior.
- Custom benchmarks reflect the historical composition of the SCRS policy benchmarks over time.
- Attribution analysis measures the various sources of the Total Plan's excess return over its Policy Index. The Plan's total value added/lost versus the Policy Index during the period can be decomposed into three sources: 1) Manager Value Added, 2) Asset Allocation Value Added, and 3) Other. Manager value added and asset allocation value added are each further broken down in terms of the contribution from each of the Plan's individual asset class components.  $\text{Manager Value Added} = (\text{Actual Weight of Asset Class}) \times (\text{Actual Asset Class Return} - \text{Asset Class Benchmark Return})$ .  $\text{Asset Allocation} = (\text{Asset Class Benchmark Return} - \text{Total Plan Benchmark Return}) \times (\text{Actual Weight of Asset Class} - \text{Target Policy Weight of Asset Class})$ . Other measures the impact of asset movements on the Total Fund results.
- Plan sponsor peer data on slides 7 and 8 is based on a universe of public funds with market values of \$1 billion or greater compiled by BNYM and Investment Metrics. Figures shown for the trailing three-year period ending 3/31/14 reflect 73 plans within this universe which provided performance information for the entire period. Figures shown for the trailing five-year period ending 3/31/14 reflect 71 plans within this universe which provided performance information for the entire period.

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**RETIREMENT SYSTEM INVESTMENT COMMISSION**  
1201 MAIN STREET, SUITE 1510, COLUMBIA, SC 29201

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SARAH N. CORBETT, CPA  
EXECUTIVE DIRECTOR

June 16, 2014

### **MEMORANDUM**

**TO:** The South Carolina Retirement System Investment Commission

**FROM:** Bryan Moore, CFA, Senior Investment Officer

**RE:** Acquisition of Munder Capital Management and its subsidiary, Integrity Asset Management, by Victory Capital Management

#### **Overview:**

Pursuant to the investment management agreement between the Investment Commission ("Commission") and Integrity Asset Management ("Integrity"), a recent event has resulted in a situation that requires the Commission to determine whether or not to allow Integrity to continue managing the U.S. Small Cap Value portfolio by assigning the investment management agreement to Victory Capital Management LLC ("Victory"). Integrity, which was acquired by Munder Capital Management and its parent company, Munder Capital Holdings, LLC (collectively, "Munder") in December 2010, has entered into a purchase agreement with Victory.

#### **Recommendation:**

Consent to the assignment of the investment management agreement to Victory, and allow Integrity to continue managing the U.S. Small Cap Value portfolio.

#### **Additional Information:**

After discussing the transaction with both Dan Bandi and William McNett of Integrity, the Staff expects no change to the team managing the portfolio. Integrity's investment team will continue working from their office in Rocky River, Ohio, and there are no planned changes to the investment philosophy, strategy, or process. The principle impact to the day-to-day operations of the firm will be the integration of the legal and compliance functions from Munder into Victory. Although Integrity will keep the Integrity name, it will now be a wholly owned subsidiary of Victory. Each of Integrity's principals will now be equity shareholders of Victory. Munder and Victory are portfolio companies of Crestview Partners.

	Market Value	1 Month	3 Month	FYTD	YTD	1 year	3 Years	5 Years
Integrity	\$357,928,712	-1.4%	4.9%	20.9%	4.9%	25.6%	14.0%	23.1%
Russell 2000 Value		-2.6%	3.1%	16.6%	3.1%	19.6%	11.2%	19.1%
Value Added		1.2%	1.8%	4.3%	1.8%	6.0%	2.8%	4.0%

*Data as of 4/30/2014, Gross of Fees*

As shown in the table above, Integrity's investment team has consistently outperformed its benchmark, and the Staff will closely monitor this investment to ascertain if the ownership transition negatively impacts future investment results, as well as the back office integration which is the primary focus of the transaction.

## Memo

To: **Retirement System Investment Commission**

From: Brady O'Connell, CFA; Chris Riley

Date: June 1, 2014

Re: Integrity Asset Management, owned by Munder, to be acquired by Victory Capital Mgmt.

### Summary

Munder Capital Management (Munder) announced that the firm and its subsidiary, Integrity Asset Management, have agreed to be acquired by Victory Capital Management. The deal is expected to close in the third quarter of 2014. We anticipate that the boutique team structure that was developed at Munder will remain intact under the new structure. We recommend the Commission elect to remain with Integrity for the time being and endorse the proposed change in ownership. We will continue to monitor developments related to this event.

### Background

Munder Capital Management and its subsidiaries are currently owned by Crestview Partners (a private equity firm) and key employees of Munder and Integrity. Additionally, Victory Capital Management is also owned by Crestview Partners in a separate private equity fund. The ownership structure of the combined entity will be as follows:

- Crestview Partners will own 60%
- Victory, Munder, and Integrity employees will own 20%
- Reverence Capital, a private equity firm, and Ohio State Teachers' Retirement System, an institutional investor and co-investor with Reverence Capital, will own 20%

The merged firm will continue to operate with investment management teams operating in a boutique-like structure. The Munder Capital Management investment teams are expected to continue to reside in Birmingham, MI while the Integrity Asset Management equity team will retain its office in Rocky River, OH. The firm's headquarters will be located in Cleveland, OH (Victory Capital Management's location).

As Munder was held in a private equity fund since being purchased from Comerica Bank in 2006, a variety of potential suitors were evaluated. Munder's management, along with the key investment professionals at its subsidiary of Integrity, felt that the alternative of merging with Victory was the best

June 1, 2014  
Page 2

strategy at this time. David Brown, Chairman and Chief Executive Officer of Victory Capital Management, will oversee the day-to-day management of the combined entity.

**Conclusion**

We are comforted by the fact that the investment teams at Munder and Integrity approved of the acquisition and in some cases saw expanded equity ownership across its investment teams. The ownership structure remains majority owned by a private equity firm, which leads us to believe that there will be another transition a few years into the future. We do not recommend any action be taken regarding Integrity based on this development and we will continue to monitor this situation on your behalf.

# HEK Service Provider Review

June 16-17, 2014



# HEK Contract Review

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- Timeline overview:
  - December 2011: RSIC issued and RFP for an Investment Consultant
  - January 2012: HEK submitted a response to the RFP
  - September 2012: The Commission selected HEK to serve as the general Investment Consultant to RSIC
  - October 1, 2012: Effective date of HEK contract
  - September 30, 2017: End of current contract period
    - May be terminated by the client for any reason with 30 days' notice.



# HEK Review

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- **The RSIC Governance Policy states:**
  - “All service providers will be subject to regular and appropriate performance monitoring and periodic reviews by RSIC staff throughout the term of their contracts. Review criteria may include, but is not limited to:
    - Performance, RSIC staff satisfaction, competitiveness of fees and/or costs, quality of reporting, and compliance with contract terms. ”
  - “The CIO or Investment Consultant, as appropriate, will report to the Commission on monitoring efforts involving Named Service Providers relating to investments, identifying any material issues or actions taken.”
  
- **HEK has been investment consultant to the RSIC for a little more than a year and a half.**
  - It is reasonable to allow a “ramping up” period with regards to getting required reports in place and items scheduled.
  - It is anticipated that a review will be done on an annual basis going forward.



# HEK Review

Requirement	Status	Frequency	Comment
<b>General Scope &amp; Purpose</b>	✓	continual	
Annual Investment Plan	✓	continual	Adopted 4/23/2013; effective 7/1/2013 2014 draft document presented 3/13/14
SIOP	✓	continual	Amended & adopted 9/26/2013.
Investment-Related Reports	✓	continual	Asset allocation, risk budgeting, benchmark selection, asset class implementation

These are broad guidelines and are covered in greater detailed in the following requirements.





# HEK Review

Requirement	Status	Frequency	Comment
<b>Development of Portfolio Structure</b>			
Portfolio Structure Analysis	✓	as needed	"Thoughts on Internal Management" memo dated 10/30/2012; "Global Asset Allocation Portfolio Considerations" memo dated 10/31/2012; "Overview of Russell Overlay Performance" memo dated 1/21/2014.
Active Management Rationalization	✓	as needed	HEK has offered ongoing advice as the plan has been rationalizing active management and moving to passive/enhanced indexing, as appropriate.
Asset Class Implementation Plans	✓	as needed	Staff delivered the plans, with input and review by HEK. As these become a regular planning tool, HEK will be more integrated into the process.



# HEK Review

Requirement	Status	Frequency	Comment
<b>Review of Asset Allocation</b>			
Asset-based Asset Allocation Studies	✓	as needed	
Liability-based Asset Allocation Studies	✓	3-5 years	Due to a structural change in the liabilities, HEK provided an updated Asset Liability Modeling study two years in a row.
Return & Risk Assessment of Current Portfolio	✓	as needed	Going forward, staff will request updated risk/return numbers based on HEK's quarterly capital market assumptions.



# HEK Review

Requirement	Status	Frequency	Comment
<b>Review &amp; Evaluation of Portfolio</b>			
Independent Calculation & Reconciliation of Policy & Strategy Benchmarks	✓	monthly	



# HEK Review

Requirement	Status	Frequency	Comment
<b>Review &amp; Evaluate Portfolio</b>			
Investment Performance Reports containing:	✓	quarterly	
total portfolio mix	✓	quarterly	
investment advisor structure	✓	quarterly	
capital market index performance for appropriate benchmarks	✓	quarterly	
performance of fund relative to appropriate benchmarks	✓	quarterly	
peer group comparative analysis on manager, asset class, and total fund level	✓	quarterly	
quantitative and qualitative review of style exposure	✓	quarterly	This was historically included in the quarterly report, but was omitted when HEK migrated to a new reporting system. It has been included in the 3/31/2014 report.
Investment manager quantitative and qualitative updates	✓	as needed	In performance highlights report presented in meeting by HEK (stored in grid). Should determine if we want to track emails HEK sends with manager events in the HEK grid.
Investment manager composite and plan-specific performance	◆	quarterly	This would check the tracking error between a manager's composite and the performance for the RSIC SMA. HEK is working on this report and it should be done soon. They have suggested that a more appropriate frequency for providing this report is annually.



# HEK Review

Requirement	Status	Frequency	Comment
<b>Rates of return on total fund, asset class, and investment manager level</b>		quarterly	
Performance report reconciling with custodian numbers (nof)	✓	quarterly	
Performance report independently maintained by consultant	✗	quarterly	HEK can produce either numbers reconciling with the consultant or independent numbers that leave the books open. RSIC prefers to have HEK performance reports reconcile with BNY. The administrator will be able to produce performance numbers that are calculated both ways.



# HEK Review

Requirement	Status	Frequency	Comment
<b>Review &amp; Evaluate Portfolio</b>			
Assist in the preparation of quarterly reports, which include:	✓	quarterly	
Appropriate benchmarks for each manager/asset category in the AIP	✓	quarterly	
Appropriate universes for each manager/asset category and the Total Fund	✓	quarterly	
A review of risk exposures for the entire portfolio (including asset class, sector, geography, and currency)	◆	quarterly	Performance highlights includes plan level attribution. Asset class composites in quarterly reports includes sector, geography, and currency analysis for long-only assets. As RSIC on-boards with Conifer and we get enhanced reporting, HEK will be able to provide more detailed risk exposure reports.
Quantitative and qualitative analysis of each manager, including value-added analysis	✓	quarterly	Performance highlights includes qualitative analysis of stand-out managers. Quantitative analysis for each manager in full quarterly report.
Independent review of reports received from investment managers and custodians	✓	as requested	HEK receives manager statements and reconciles them w BNY.
Meet monthly with staff to discuss portfolio, asset allocation, maintain investment plans, and implementation schedules.	✓	monthly	This is currently being done more frequently with a mix of conference calls and in-person meetings.



# HEK Review

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Requirement	Status	Frequency	Comment
<b>Delivery of Quarterly Reports to Commission</b>			
Personal Presentation of Quarterly Report	✓	quarterly	



# HEK Review

Requirement	Status	Frequency	Comment
<b>Delivery of Annual Reports to the Commission</b>		annually	No later than 70 days after FY-end.
Prepare an Annual Report that satisfies statutory requirements:	◆	annually	Last year these items were provided slightly late. HEK has assured staff that these will be delivered on time this year.
Net of fee performance report	✕	annually	Now done by BNY
Consultant's report	✓	annually	
Correlation matrix	✓	annually	This is provided in the annual asset allocation updates. We do not publish this in the Annual Report.
Verification that the Commission is in compliance with AIP and SIOP	✓	annually	
Verification of calculation used to determine performance incentive comp	✓	annually	





# HEK Review

Requirement	Status	Frequency	Comment
<b>Conduct Service Provider Searches</b>			
Assist in the evaluation & selection of new or replacement investment managers & assist in searches for other service providers	✓	as requested	Anytime a manager is being put before the Commission for investment, HEK provides a memo.
Manager profile presentation to CIO	✕	as requested	This is done informally through discussions with staff. If we would like a formalized "search book", one can be provided upon request.
Assist in interview/selection process	✓	as requested	
Assist with transition and implementation	✓		
ODD for new and on-going investments	✓	as requested	
On-going due diligence for direct, traditional investments. Provide documentation.	✓	twice annually	These reports have been received. HEK has worked with staff to formalize the due date. They will be received on 3/31 and 9/30 of each year going forward.
Perform national background checks on key persons up initial manager selection. Provide documentation.	◆	as required	There is now a plan in place for background checks to occur. Managers that have been recommended during HEK's tenure will be completed and documented.
Review on an on-going basis:	✓	on-going	HEK attests that they are reviewing ADVs and SAS 70s for all investments, except for those that are within strategic partnerships.
manager form ADVs	✓	on-going	
manager SAS 70s (SSAE 16)	✓	on-going	

✓ = On target

◆ = Trending to target

■ = Needs attention

✕ = Deliverables not started/deferred



# HEK Review

Requirement	Status	Frequency	Comment
<b>General Consulting Services</b>			
Evaluating Administrative Matters	✓	as requested	Strategic planning. Plan administrator search.
Provide Training and Education	✓	at least annually	HEK offers a client conference every 18 months and on-demand webinars. The client conference is on Sept 3-4, 2014, for any Commissioners who would like to attend.
Provide Access to Manager Research Tools, Systems, and Databases	N/A	as requested	In HEK's response to the RFP, they never committed to providing access to these databases, and therefore this is not in the scope of the contract.



# HEK Review

Requirement	Status	Frequency	Comment
<b>General Provisions Related to Scope of Services</b>			
Meetings with the Commission (in SC)	✓	as requested	
Proper Communication with Commission	✓	as requested	
Technical Assistance in Responding to Inquiries	✓	as requested	
Access to Consultant's Investment Consulting Resources	✓	on-going	
Fiduciary Obligation	✓	on-going	Determined by Chairman and Vice Chairman.

